STATEMENT TO THE STATE CAPTURE COMMISSION OF INQUIRY

I, the undersigned,

CHERYL ANN CAROLUS

state as follows:

Introduction

1. I have prepared this statement to assist the State Capture Commission chaired by Deputy Chief Justice Zondo ("the Commission"). It relates to my term of service on the Board of South African Airways.

2. I was a member of a board of directors appointed by then Minister Barbara Hogan on 28 September 2009 for a three-year term to the Board of South African Airways. I was appointed as the chairperson of the Board. The full Board was appointed in three batches: 28 September 2009, 2 December 2009 and the last two persons on 25 February and 3 May 2010 respectively. This was done in consultation between Minister Hogan, myself and those initially appointed to ensure we had a group of directors who could meet the general needs of a Board of a substantial company as well as be able to deal with the specific challenges and opportunities SAA was facing at the time.

3. The final Board comprised a diverse group of persons with wide and varied skills and experience, ranging from large corporate/ business, audit and accounting, emerging businesses, community and civil society, human development, trade union and labour, legal, tourism, marketing, procurement and global competition best practice. It was also diverse in terms of gender, race and age. The members of the Board were myself as chairperson, Mr Teddy Daka, Mr Tukela Cyril Jantjies, Mr Bonang Mohale, Ms Duduzile Myeni, Adv Lindi Nkosi-Thomas, Mr Russell Loubser, Mr Kaushik Patel (executive director resigned 15 December 2010), Mr Christopher Smyth (executive director), Ms Margaret Whitehouse, Mr Louis Rabbets, Mr Zakhele Sithole, Mr Abel Bouchon, Ms Yakhe Kwinana, Mr Jabulani Ndhlovu, Mr David Lewis, Ms Sizakele Mzimela (executive director) and Mr Wolf Meyer (executive director appointed 13 June 2011). I attach the relevant pages of the 2010 Annual Report in which the qualifications and background of each of the board members is described as Annexure "A".

Role clarification between shareholder, Board and management

4. Upon our appointment by Minister Hogan, she made it clear that she expected the SAA Board to be familiar with and to adhere to the letter and the spirit of the laws governing State Owned Companies in general and the new Companies

Act (Act 71 of 2008), The Public Finance Management Act (PFMA) and the King III Codes of good governance in particular. She assured me that she would do likewise in her capacity as the shareholder representative (on behalf of the SA Government). She also indicated that she expected the Board to discharge its obligations with due regard for government's wider objectives of economic growth, job creation, transformation and good governance. She indicated government's concerns about the state of affairs at SAA and that the Board was expected to pay urgent attention to the resolution of those issues. Below I list the challenges that we were to address. She assured us of the support of her Ministry and of the Department to hold us accountable and to enable us to do our work effectively and efficiently.

5. To this end the Minister convened a workshop of all the Chairpersons of the Boards of State Owned Companies that fell under her Ministry on 2 December 2009. Professor Michael Katz led the discussions on The New Companies Act and the King III codes of governance and she and members of her team took us through how she wished to ensure that we were aware of shareholder expectations, where our work fitted in with government goals and objectives, how we could input into government goal setting, planning and processes, how our performance will be measured and how we will be held accountable.

6. The Board understood that it had to work with the shareholder (represented by the minister) closely, but both parties understood the difference in roles between shareholder, Board and management.

Challenges facing SAA at time of our appointment

7. At the time of our appointment SAA was facing a number of serious challenges.

8. There had been a number of governance failures - some of which was exposed in an investigation that the previous Board had commissioned and which had been conducted by KPMG. That investigation had resulted in the previous CEO, Mr Khaya Ngculu being relieved of his position by our predecessors. The new Board was advised that it was compelled to review and act on the findings presented in the review. After the review I consulted, on behalf of the Board, with the then head of the NPA, Mr Menzi Simelane to highlight the seriousness of the charges against Mr Ngculu. Mr Simelane guided us on the process for laying criminal charges against Mr Ngculu. The Board did lay charges in or around March 2010. We were assisted by Stuart Harrison of ENS in our submission with the Commercial Crimes Unit. I do not know what has subsequently happened to those charges.

9. There had been major failures in procurement systems and poor adherence to laws such as the PFMA.

10. The levels of capitalization over the years had not kept up with the expanding mandate of the airline. As a consequence SAA had a weak balance sheet.

11. SAA faced a number of substantive criminal and civil law suits in SA and several foreign jurisdictions related to price fixing and other anti-competitive behaviour.

12. There was a very fragmented senior management team with many positions not filled with permanent appointments, and many in those positions had very limited top management experience. There was very poor employee morale and toxic relations within the workforce at all levels and between management and unionized staff.

13. SAA had lost scale and competitiveness. Some of the aircraft needed to be retired. In summary this was due to an ageing fleet that was very inefficient in terms of fuel consumption and could not compete with the overall offering from our competitors, most notably Kenya Airways, Ethiopian Airlines and Emirates. Fleet renewal had to be prioritized. The Board proposed an investment of R2 billion in fleet renewal to support a 10-year international network plan which aimed to expand the east-west corridor (notably Beijing and Mumbai), connect major global flows into Africa through Johannesburg and to fly non-stop on all international routes. The plan covered 14 major cities including strengthening Mumbai. There was great urgency about this because ordinarily it took about four years from order placement to delivery of aircraft.

14. But at the time, it was just post the global economic crisis of 2008 and therefore there was a possibility of getting earlier delivery and at better prices

because some airlines that had ordered aircraft that were ready for delivery were under severe financial pressure, battling to honour those commitments, and did not have the expanded demand that led to them expanding their fleets at the time of order. This provided a , great opportunity to beat the "usual" time and price for aircrafts.

Priorities for the new Board

15. The new Board prioritized getting a top management team into place, the restoration of good governance and the adoption of a strategy to get SAA to be a viable business. We believed these were critical building blocks to restoring the viability of the airline.

16. Setting the tone at the top was also deemed necessary to restore the confidence of stakeholders most importantly of the workforce and the public. These included:

    16.1. no director fee increases for Board members and the executive committee and a very small salary increase for pilots and generous increase to lower end workers in 2010;

    16.2. remove "privileges" for Chairperson like dedicated driver and car and "facilitation" for boarding procedures.

17. One of our first tasks was the recruitment of a permanent CEO. We worked closely with our shareholder in this regard. We appointed a global head

hunting company and briefed them to do a global search for a person familiar with our routes and especially with African aviation insights and experience. The shortlist comprised of top talent from Africa, Europe and the Americas. The successful candidate was Ms Siza Mzimela. Ms Mzimela had experience in banking and had risen through the ranks in SAA and had served successfully in various capacities at executive management level in SAA. At the time of her recruitment she was the CEO of SA Express, a key strategic partner of SAA.

18. Ms Mzimela managed to recruit a good management team, many of whom had served in SAA previously and were head hunted from competitor airlines. She set about improving relations with the workforce (from the unionized workers to the EXCO and pilots). She started working with her team to present the Board with a strategy. She also strengthened systems, structures and procedures of governance to improve compliance, record keeping and accountability. A key task for her was to lead the process for the presentation to the Board of a strategy to take SAA forward. This had to be accompanied by the completion of the review of the SAA fleet to ensure alignment with the strategy and the need to create a modern and more cost efficient fleet as a key part of reviving SAA's global competitiveness.

19. The Board set about organizing itself to ensure that we had appropriate structures and procedures in place to discharge our responsibilities, to distribute the workload evenly and to harness the skills of all members. In addition to the usual Board committees, we set up committees that would

create effective oversight in areas of concern that impeded our functioning as a company. These were the Procurement and Tender Processes Committee and the Ad-Hoc Committee on Litigation. As a consequence, we went a long way in supporting the CEO and her team in addressing shortcomings, waste, and illegalities. Most importantly we went a long way to establishing ethical conduct which in turn boosted staff morale significantly.

Development and adoption of the Growth Strategy

20. Our predecessor Board had started to engage with the challenges regarding the fleet. We did not want to reinvent the wheel but we felt we had the responsibility to review and adapt in line with the then prevailing global conditions and our country's ambitions in terms of trade, tourism and general transportation of people and goods for economic growth and development.

21. Ms Mzimela and her team understood this to be a priority. They presented their proposals to the Board Strategy Session held at the end of October 2010. It was understood that this would need support from the shareholder if the final decisions would see the light of day. To this end Minister Hogan and key members of her team joined us for the latter part of the proceedings. The Minister was comfortable with the proposals that emerged and undertook to take those through the regulatory processes. Immediately thereafter, 1 November 2010, Minister Hogan was replaced by Minister Malusi Gigaba.

Ensuring continuity with Minister Gigaba

22. Within days of his appointment on 1 November 2010, I contacted Minister Gigaba to congratulate him and to arrange to meet. He readily agreed and when we met he was constructive and indicated his desire to ensure continuity of the work started with his predecessor. SAA management continued to fulfill its obligations and consultations with the Department as is to be expected despite the change in Minister. No concerns were raised by either party that required attention by the Board or minister in those regular processes. We arranged a subsequent formal meeting with him and his team to present the broad outline of the Strategy we had developed with his predecessor and an update of key matters we were dealing with. I attach the presentation we made to him as Annexure "B". Minister Gigaba raised no objections to our proposed strategy. In preparation for this meeting, the CEO and her team worked with key members of the Department and with the Minister's new team to take them through the proposals. on the table towards a meeting. The meeting between the Minister, the DPE, the Ministry team and SAA Board and management took place on 18 April 2011.

23. The approved strategy clearly defined issues of route optimization and profitability as well as the need for fleet development both of which became central issues for successful delivery.

Growing concerns and mistrust of Minister and Team

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24. Over time, members of the Board became concerned and uneasy with our relationship with Minister Gigaba. Eventually the Board felt quite aggrieved by the lack of responsiveness from our shareholder minister, his numerous utterances in media and on public platforms; questioning the capabilities of the Board and their patriotism. These sentiments were never expressed to the Board on the numerous occasions that we met with the Minister. On all occasions when we met him to enquire if he did have concerns about our competence as a Board, we were assured of his respect and confidence and those views attributed to him were explained as him being misquoted or quoted out of context. However, he continued to create the impression that the Board was unprofessional in the media, and in Parliament. To illustrate this, I annex a press statements from 2012 as Annexure "C1" and "C2".

25. Over time, these views were also expressed by some members of the Minister's team, most notably a Mr Siyabonga Mahlangu who was the Minister's Legal Advisor. On one occasion one of the members of the Board, Mr Jabu Ndhlovu was invited to the offices of Mr George Sabelo. At this meeting Mr Sabelo made statements to the following effect

25.1. The Board was incompetent and "too big for their boots"

25.2. The chairperson of the Board, had the mistaken view that she was the Minister's political senior

25.3. The CEO carried on as if she was accountable to herself

25.4. The Minister was about to sort all these out

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26. Mr Sabelo indicated that these views were communicated to him by Mr Siyabonga Mahlangu, the Legal Advisor to Minister Gigaba and that they were views held by the Minister.

27. Mr Ndhlovu told Mr Sabelo that the views expressed by him was of such a serious nature that he had to draw these to the attention of the Chairperson of the Board especially given the fact that the views represented a discussion with the Ministers Legal Adviser.

28. Mr Ndhlovu called me immediately after the encounter.

29. I called Minister Gigaba who agreed to meet myself and Mr Ndhlovu the following night with Mr Mahlangu present. Mr Mahlangu confirmed that he had met with Mr Sabelo and had indeed exchanged views about the SAA Board. In the meeting Minister Gigaba took Mr Mahlangu to task in our presence, stating that nobody is to speak on his behalf about matters relating to Boards. The Minister assured us of the high regard and confidence he had for the Board and for my own leadership thereof. He further indicated in very strong terms to Mr Mahlangu that he should not express those views and that he should never repeat such behaviour. The Minister indicated he was prepared to put his response in writing in order to assure the rest of the Board of his confidence.

30. The following morning Mr Ndhlovu received a call from Mr Sabelo expressing his displeasure that Mr Ndhlovu had disclosed the information and views he had shared with myself. It was clear that Mr Mahlangu had been in

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communication with Mr Sabelo and had shared the discussion at the meeting despite his undertaking at the meeting with the Minister to desist from discussion of Board matters involving the minister with outside parties.

31. In SAA's dealings with the department subsequently Mr Mahlangu continued to appear in meetings often completely unrelated to legal matters, without the Minister. He was often the most vocal person whilst departmental officials were silent. For example, Mr Mahlangu played a particularly prominent role in the efforts to get SAA to redirect spending to an emerging newspaper, The New Age, as well as in our interactions with the Minister and with the department relating to the Mumbai - Johannesburg route.

32. The business cases in both instances were highly problematic. I deal with this in detail below. In both cases there was an openness to consider the merits of proposals but they did not pass muster because by and large they did not make business sense nor could they be justified on developmental or transformation grounds.

33. In both cases there was undue interest, interference and what was tantamount to bullying of management and in some instances members of the Board by individuals in the DPE and the Ministry. There were attempts to get the Board to interfere in matters that were within the remit of management and to override management decisions which were not successful.

The Mumbai Route (Minister Hogan's tenure)

34. The proposal for SAA to abandon the Mumbai route was initially put to the Board by the then acting CEO Mr Chris Smyth shortly after our appointment. The Board was quite open to the idea of relooking routes in principle, but agreed to only consider it when we would review the overall strategy that would consider all routes. We further agreed that such strategy would come through a new permanent CEO and management team to the Board.

35. The evolution of the new strategy culminated in the "Growth Strategy for SAA" ("the Growth Strategy") which was presented and adopted by the Board at the board meeting of November 2010.

36. Central to the Growth Strategy was the assertion of Johannesburg as a hub for connecting passengers from the east into Africa and South America in direct alignment with government's emerging trade and tourism strategy with what was to become the BRICS bloc. Key routes were strengthening Mumbai and opening the Beijing route.

37. All routes were discussed at the monthly and quarterly meetings with DPE and National Treasury because losses were incurred on a number of routes. This was a global phenomenon at the time in the wake of the 2008 economic crisis. SAA was experiencing losses on the Mumbai route if you consider it on a point to point basis, but this was not the worst loss-making route. In fact, SAA was slowly building it up and results were improving.

38. As on all routes, SAA was open to proposals that made commercial sense and that avoided destructive competition with other airlines on the routes we

operated. Jet Airlines proposed that SAA should relinquish the route. They were not prepared to discuss any form of collaboration. This was quite unsual for one party to expect a competitor to relinquish their efforts. This certainly did not make business sense to SAA. We believed we had a strong competitive advantage with our Johannesburg hub and existing frequencies into our African and South American alliances and destinations. Our African routes were some of our most profitable and we had a strong rollout programme to expand into more destinations and to increase frequencies to existing routes. We were thus able to carry the losses from Mumbai and make up for that when we provided onward connections from our Johannesburg hub to those passengers in a way that Jet Airways could not.

39. Jet Airways then chose an aggressive strategy against SAA and decided to operate seven frequencies per week. They could not sustain this and subsequently had to abandon the route whilst SAA continued. But this caused even greater losses for both companies.

40. Jet Airways tried through various channels (set out below) to get SAA to abandon the route to them. SAA resisted this on all fronts. There are clear criteria for choosing routes and clear procedures in the decision-making process.

41. During their efforts to get SAA to abandon the route my office at SAA received several calls requesting that I meet with the President of Jet Airways. As with all requests for meetings, I asked the office to enquire what it was in

connection with. I was told it was to discuss the Mumbai Route. I asked the office to indicate that such discussion is best broached through our usual channels in management. This was the appropriate procedure since the Board only considered routes when management presents proposals for consideration and then only if it is a deviation from those agreed at the annual strategic planning session. I asked the office to refer Jet Airways to the CEO and to inform them that the Board would be happy to discuss route proposals from the CEO in our normal course of business.

42. It was then brought to my attention that the President of Jet Airways would seek to "escalate the matter to the Minister". I cannot recall who brought this to my attention. It is highly unusual for one competitor in the market to make such an approach to SAA, let alone the Minister. As a courtesy I immediately informed Minister Hogan. She felt it was out of her remit as the shareholder representative to discuss deviations from routes with third parties before proposals were processed through SAA structures. She informed me that she had been briefed by her office of ongoing efforts to get SAA to terminate their flights to Mumbai. I assured her that it did not make business sense for SAA and that we had no intentions of doing so. She accepted that we would keep the DPE well informed through our regular route discussions if we had any such considerations. She called me around August 2010 when she was on a visit to India regarding rumours in India that SAA was about to vacate the route. I assured her that we were not.

The Mumbai Route (Minister Gigaba's tenure)

43. The matter resurfaced when Minister Gigaba replaced Minister Hogan. Minister Gigaba requested a meeting at his office in Pretoria with myself and the CEO to discuss the Mumbai route at the end of 2010 – that is, shortly after he was appointed. I was unable to attend the meeting and asked the Chair of the Audit Committee, the now deceased Mr Zakhele Sithole to accompany Ms Mzimela. A detailed memorandum was sent to the Minister. At the Ministers request, the CEO took the Minister through the memo prior to the start of the meeting.

44. Mr Sithole and Ms Mzimela gave me an account of the meeting. They were both perplexed about what transpired at that meeting. Also present with Minister Gigaba at the meeting was the then Deputy Minister Ben Martins and Mr Siyabonga Mahlangu.

45. They reported to me that upon arrival they were informed that they had to await the arrival of another party. All of them, including Minister Gigaba waited for three hours. Finally, the person who arrived was Jet Airways President Mr Naresh Goyal and another representative of Jet Airways. The discussion was then led by the Jet Airways President, with no participation by Minister Gigaba. He proceeded to take a very aggressive stance towards SAA management about SAA's refusal to move off the route. Apparently Deputy

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Minister Martins then intervened calling on the gentleman to desist from his aggression and his assertions that were clearly not informed by any facts and the meeting ended with SAA affirming its commitment to build the route and an undertaking to consider all reasonable proposals submitted by Jet Airways through the usual procedures and in the usual framework of its strategic considerations.

46. Ms Mzimela further reported to me that whilst she and Mr Sithole were waiting with the Minister for the delegation from Jet Airways, someone purporting to be from Jet Airways called her office at SAA Head office at Airways Park demanding to see Ms Mzimela. The gentleman alleged that he had an urgent agreement that the CEO had to sign. Ms Mzimela's PA told the gentleman that Ms Mzimela was not present and eventually transferred him to the Company Legal Counsel, Advocate Sandra Coetzee. After hearing him out Advocate Coetzee assured him that the company was unaware of what he assumed was "all agreed and merely required Ms Mzimela to sign the agreement". Advocate Coetzee asked him to send her all the relevant documentation that gave rise to his assumption and undertook to appropriately process his submissions. (To my knowledge there was some email communication between Advocate Coetzee and him, but the matter never reached a point where agreements were signed.) As a board and management this was quite astounding and we could not figure out where this level of presumption came from.

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47. Subsequently I was again asked to attend a meeting in April 2011 with Minister Gigaba at very short notice, this time in Cape Town. I was again unable to change my own work schedule and one of the Board members, Mr Teddy Daka accompanied Ms Mzimela. We assumed it was about the planning for the conclusion of our financial statements and the capitalisation plans in relation to which we were in intense discussion with the Minister and the department.

48. Mr Daka reported to me that the Minister opened the meeting indicating that he wished to discuss a number of matters, first of which was the Mumbai route. Mr Mahlangu then led the discussion whilst Minister Gigaba did not make any contribution. Mr Mahlangu apparently berated Ms Mzimela for SAA's resistance to the request to abandon the route. He further asserted that SAA was wasting government money that could have been better utilized for example, for RDP housing. Ms Mzimela informed me that she indicated her displeasure at being addressed in such a manner by Mr Mahlangu. Mr Daka apparently also asserted this and asked the Minister to ensure that Mr Mahlangu behaved in an appropriate manner. In other words, despite the earlier admonishment of Mr Mahlangu by Minister Gigaba, his aggressive behavior continued.

49. At the Minister's invitation, two Jet Airways persons (one of whom was their President) then joined the meeting. The SAA team had not been informed that the Minister intended to bring Jet Airways representatives into the meeting.

Minister Gigaba expressed his desire for SAA and Jet Airways to "find one another on the matter".

50. Minister Gigaba did not raise any other matters for discussion with the SAA representatives as indicated at the start of the meeting. It appears as if the sole reason for asking myself and the CEO to fly to Cape Town to meet with him was to facilitate a further discussion with Jet Airways about the Mumbai route.

51. We found it peculiar that the Minister was so determined to assist Jet Airways and SAA "find one another" with the Mumbai route when in fact there was unnecessary dragging of feet on dealing with other route proposals that were central to SAA strategy too. For example, the DPE took unnecessarily long to give SAA permission to close the Botswana route that was making excessive losses. It didn't make sense that we were not being supported to close a route that was making even bigger losses than the Mumbai route.

52. We also felt quite let down by the Minister being so persistent in being proactive to help a competitor who openly stated that their intention was to close down a route for SAA. It seemed bizarre for a shareholder to seemingly act against his own interests. In those discussions it also seemed as if the minister was complicit to allowing Jet Airways to set the tone and agenda with no protection offered by him when members of the SAA representatives were attacked.

53. SAA did not receive any proper proposals regarding the closure of the Mumbai route.

54. Jet Airways then placed seven frequencies into the route. As a consequence both SAA and Jet Airways suffered even bigger losses, but SAA managed to survive through our strategy of onward connectivity from our Johannesburg Hub. Jet Airways eventually abandoned the route. Thereafter, Etihad Airlines bought a stake in Jet Airways. SAA also eventually gave up the route. I have no understanding of why SAA made that decision, which was after my tenure on the Board. Etihad Airways now does onward connections to Africa via their own hub.

The New Age

55. With regard to The New Age newspaper, an initial approach was made to the SAA marketing department and processed through the normal procurement channels. It was finally turned down by the Bid Adjudication Committee (the BAC) because it did not meet the business criteria.

56. I was called by the then Director General Mr Tshediso Matona requesting an urgent meeting with me to discuss the matter. At that stage I had no knowledge about this matter because this is a management matter and outside of the Board remit. I indicated that it should be discussed with management not the Board. He informed me that there had been problems with management in this regard. I eventually agreed to meet him. I got a briefing from Ms Mzimela on the matter and took her along with me to the meeting because I considered it

inappropriate and unnecessary for me to get involved in what was clearly a management decision.

57. I was surprised to find Mr Mahlangu at the meeting because we were not discussing any legal agreements, nor was the Minister present. I assured the meeting that, within our legal and policy prescripts, SAA would be prepared to support a new entrant in the media space to encourage media diversity. But I asserted firmly that, especially as a public entity, we had to adhere to our procurement frameworks. We needed to be able to demonstrate the business case for our expenditure. I further asserted that this was a matter for management to process and not the Board.

58. It was eventually reported that The New Age had been offered the same opportunities offered to all newspapers and that some other requests had been turned down on business and policy grounds, for example, SAA policies did not allow the company to pay for tables at events like The New Age morning breakfasts. As regards advertising, the company advertises in newspapers for two main purposes: 1) for recruitment of skills and 2) for promotion campaigns during low demand periods. In both cases advertising is done in newspapers that are consumed by the target market segment. Advertising has to get the desired result or else it is fruitless and wasteful. It was important for SAA to use a diverse range of media to reach different audiences for very specific purposes. We used media that had proven records of consumption by the targeted segments. It was not in the company's remit to

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fund the growth of a media entity through the SAA budget. The Board did not see the need to discuss this further.

From Strategy to Budget, Corporate Plan and Shareholder Compact

59. At its November 2010 meeting the SAA Board formally approved the strategy developed at the Strategic Planning Session in October (and attended by Minister Hogan). This was subsequently translated into the 2011-2014 Corporate Plan and submitted to the Department of Public Enterprises and the National Treasury in February 2011 as per the PFMA. The submission to Treasury was done and signed off through the DPE and the Minister as usual after our normal annual engagements in this process.

60. SAA continued to submit its financial statements, corporate plans and shareholder compacts every year, on time, during our term of office. As normal, there was much engagement in these processes right until and including the 2012 Annual Financial Statements that were delivered to both the DPE and Treasury on 31 August 2012. SAA has receipts for this.

61. At its November 2011 meeting the Board discussed, among other issues, the areas of concern inhibiting SAA's growth. There was ongoing communication with the DPE and through the DPE with the Minister. This was part of the normal cycle of preparation for the signing off on the Annual Financial Statements and related matters such as Going Concern Status of the Company.

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62. On 14 November 2011 the Minister convened a joint meeting with SA Express and SAA on SAA's proposals for an African Aviation Strategy which included the fleet requirements and the need for urgent capitalisation to do so. The Minister requested SAA to make a formal submission to him.

63. Subsequent to that joint meeting, the Minister convened a Strategic Ministerial Aviation Committee to consider the key issues, including the capitalisation required for SAA to successfully implement its Growth Strategy as discussed in the preceding year.

64. On 14 December 2011 I, as Chairperson, wrote to the Minister to outline our capitalisation requirements to fund the Growth Strategy. (This letter is referenced on page 3 of Annexure D).

65. On 16 January 2012 SAA made a presentation to the Minister on its capitalization requirements which included possible solutions to meet those needs. I attach the presentation as "Annexure D". Minister Gigaba agreed to present the SAA requirements and proposed solutions to National Treasury. Central to the way forward was the need for a letter of guarantee from National Treasury as the preferred option to secure the Going Concern Status for SAA. Without it, the SAA Audit would have a qualification even though the SAA accounts had been fully audited and the accounts verified as fully compliant with all legal and audit requirements.

66. In addition, as early as February 2012 we informed the DPE and the Treasury of the additional R2 billion loss that we suffered as a consequence of the fuel

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price increase. Despite this, ultimately our operational loss amounted to only R700 million and a small net operating profit. The fuel price variable is what necessitated the guarantee because it was unpredictable and the trajectory of the fuel price was on an upward trend. This was, of course, out of the control of SAA and airlines across the world were hit by the fuel price.

67. It was agreed that the guarantee letter would be secured in good time for the SAA AGM so that the audit findings would not be qualified.

68. In terms of the PFMA, SAA was required to submit its financial statements to National Treasury within six months of the financial year end in March, ie by the end of September. The AGM was postponed a number of times at the Minister's behest. We in fact proposed that, whilst not ideal, it was desirable to rather proceed with the AGM albeit with a qualification by the auditors rather than be contravening the law (the PFMA)

69. By then there were growing concerns by a number of members of the Board about what they felt was outright hostility and or carelessness from our shareholder because they felt he was dragging his feet with the processes to secure the "Going Concern" status for SAA. In the end we all agreed to persevere until the AGM when members could hand over and terminate their relationship in an orderly manner that would not be disruptive to the company. But a number of members were quite concerned and suspicious about the lack of responsiveness around small and major issues which they felt could cause us all inordinate reputational and professional harm.

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70. We therefore decided to write a handover report that would document our journey and key agreements reached with stakeholders including the shareholder. (Annexure "E") I handed this document over to the Minister on Tuesday 25 September 2012 (two days before our resignation). The document was to be delivered to the DPE but I thought it was appropriate to hand it to the Minister ahead of the formal delivery in order to provide him with context.

71. Upon enquiry from myself on 25 September the Minister expressed his utter dismay that his department officials had not dispatched the guarantee letter to SAA yet. He assured me that it was approved by National Treasury and that he would ensure it reached us by the next day. It did not arrive on 26 September 2012.

Resignation of majority of Board

72. Eight of the twelve directors resigned from the Board on 27 September 2012 after a major deterioration in our relationship with Minister Malusi Gigaba. By then various members of the Board had at different times approached me indicating their desire to resign due to the deterioration of the relationship. One of them in fact submitted a letter of resignation. I asked them all to abide by an earlier agreement that, notwithstanding the deteriorating relationship, we would remain until the AGM, which was imminent, and hand over a company that had a strategy signed off by the shareholder (government), that

was able to attract commercial funding and that had a good management team in place with good governance restored.

73. On the morning of 27 September 2012, the front page of the Business Day newspaper carried a story stating that the SAA AGM had been postponed because its financial statements were not ready. This was not only factually incorrect, but meant that it was tantamount to SAA being in violation of the law, namely the PFMA. We were not informed about this. I attach the news report at Annexure "F". I also attach three news reports in the aftermath of the resignation of the eight Board members as Annexures "G", "H" and "I".

74. I called an urgent meeting of the Board on the same day. I attempted to get hold of the Minister before the meeting concluded. I informed the members that I had reached the end of the road and was resigning. Eight out of twelve members decided to resign in protest to the hostility from the minister and his team, and did not want to face the prospect of being delinquent directors. This was reinforced when the letter of guarantee was subsequently sent to SAA by close of business the following day. This would have enabled the AGM to be confirmed within the time requirements, and the timing reinforced the Board's view that the Minister was at best negligent and careless.

75. The Board agreed that we would make public our resignation and our displeasure but that we would be mindful of not harming the company or undermining the progress that management had made to build confidence in the market. I attach the statement that was issued by the resigning Board

members as Annexure "J", and our letter to the staff of SAA as Annexure "K". I consequently sought to underplay the conflictual relationship with the Minister in public at this stage. At that stage I genuinely believed that it was at worst a combination of "politicians playing politics by blaming everyone but themselves", incompetence and ineffiency at play. Other board members felt very strongly that the Minister was trying to undermine the Board for improper purposes. For the benefit of the airline and ultimately our country, I requested board members to be careful about making public statements that may make the funders nervous.

(Over time I was appalled at hearing what appeared to be happening at SAA and other State owned enitites under Minister Gigaba and grew to take a very different view of the Minister and some of his team's behavior during our tenure.)

76. When a new board was appointed after our resignation, I requested a meeting with the newly appointed Chairperson of the Board and handed him a copy of the Handover Report. I wished him and the new Board well and informed him of our availability to clarify matters and to support the team if required. I assured him of the commitment of all those who had resigned to ensure the good health of SAA and that we would desist from any public utterances or engagements that could place SAA at risk in the very fragile period.

CONCLUSION

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77. I am sad to note that the advanced plans to recapitalize SAA and to renew the fleet was abandoned under the leadership of Ms Myeni who had been party to all the discussions and decisions on the urgency for and consequent processes to renew the fleet. She was party to the decisions for the funding and the tough road to securing that. Her decisions to halt the acquisitions and to restart the financing discussions were bizarre and irresponsible. As a consequence, SAA has diminished even more, lost further market share and lost good staff and good business. The fleet today is mostly aged, very fuel inefficient and costly to operate, the facilities on board are shocking, we have many aircraft not being used and parked in various parts of the world, we have lost key slots to key markets that will be very hard to get back e.g. on the Johannesburg – London route, there were up to four frequencies per day, there is now only one. This has resulted in losses in terms of market share and knock on effects eg losses in terms of economic benefits, supplier benefits and employment for all subsidiaries too, e.g. Airchefs for every single frequency / slot SAA has relinquished lost the business for that number of meals it would have provided. SAA Technical has lost scale and capacity – from being the preferred and trusted partner for servicing of aircraft of local and international airlines, a competitor seems to be emerging with huge economic and skills implications for South Africa.

78. In comparison our competitors, including Air Kenya, Air Ethiopian Airways and Emirates Airline got strong support from their governments to support their recapitalization and fleet renewal and today are far ahead of SAA.

29

79. In hindsight, and given the evidence that has emerged in the Commission, it is clear that the Board, under my chairpersonship, was placed under pressure to accede to the demand to abandon the Mumbai route in order to favour Jet Airways. It is also clear now that there was an attempt to favour The New Age with SAA's business. Both Minister Gigaba and Mr Mahlangu exerted pressure on the Board and management in this regard. I have no doubt that the Board at that time was seen as an obstacle to these attempts to influence its decisions. Indeed, the mass resignation on 27 September 2012 feels more like a constructive dismissal in order to pave the way for a more compliant Board.

DATED AND SIGNED AT ..RIVONIA.... ON THIS 29th DAY OF OCTOBER 2018.

CHERYL ANN CAROLUS

"A"

BOARD OF DIRECTORS

NON-EXECUTIVE CHAIRPERSON

MS CHERYL A CAROLUS
Chairperson
BA (Law), BA (Education).

Cheryl Carolus is Executive Chairperson of Peotona Group Holdings. She was appointed Chairperson of the Board of South African Airways (2009) and serves on a number of listed and unlisted companies. She also works with NGO's around young people at risk, conservation and conflict prevention. She has held senior leadership positions in the liberation movement in South Africa and in the African National Congress since its unbanning in 1990 – 1997. She served as Deputy Secretary General under Nelson Mandela in the ANC. She was part of the ANC's teams that negotiated the new Constitution and she coordinated the drafting of ANC policy for post apartheid South Africa. She served as South Africa's High Commissioner to the United Kingdom (1998 – 2001). She was the CEO of SA Tourism 2001 – 2004. She was Chairperson of the South African National Parks board for six years and currently serves on the boards of WWF SA and WWF International and the International Crisis Group.

NON-EXECUTIVE DIRECTORS

MR ABEL I BOUCHON
BA Economics, Ingeniero Comercial, Chile, Santiago, MBA, Wharton School, University of Pennsylvania, Strategic Management and Finance.

Abel Bouchon is CEO of Embotelladora Andina, in Chile, Santiago, the third largest bottler company for Coca Cola products in Latin America. Previously he was Chief Executive of LAN Airlines of the International Passengers Service Division, SVP Commercial responsible for the entire passenger service business unit and Chief Executive of the Chilean Domestic Passengers Service Division. He is also a Board member of three companies in Chile.

MR TEDDY DAKA
Bachelor of Arts honours degree (Business Management), a Certificate in Education, Executive Programmes.

Teddy Daka is the founder and Executive Chairman of Tedaka Investments (Pty) Ltd, an investment company with interests in various industries. He is a director and shareholder in companies including, Aurecon Pte Ltd, Ansys Ltd (Chairman), ADC-Krone Telecommunication Africa (Pty) Ltd, Connection 42 (Pty) Ltd (Chairman), Levetec (Pty) Ltd, Tedaka Telecoms (Pty) Ltd (Chairman), Verify Solutions (Pty) Ltd (Chairman), Bearing Management Consulting (Pty) Ltd (Chairman), and Chairman of SAA Technical (Pty) Ltd.

MR TUKELA C JANTJIES
Personnel Management Diploma, Management Development Programme and Personnel Management Programme.

Tukela Jantjies is currently Director and Chairman of the Middledrift Dairy (Pty) Ltd. He is also Chairman of the Community Trust. He was CEO of the King Sandile Development Trust; a Director of Management Services of Boksburg Municipality, Human Resources Director and later an Area General Manager in Blow Moulders of Nampak Ltd.

NON-EXECUTIVE DIRECTORS

MS YAKHE KWINANA

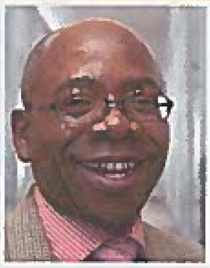
CA(SA); B Compt Honours; B Com Honours; Diploma in Banking; Higher Diploma in Computer Auditing.

Yakhe Kwinana is currently Managing Director of Kwinana and Associates. She was previously a council member of the Air Services Licensing Council, and the Debt Collectors Council and SITA as Chairperson of the Audit Committee.

MR RUSSELL M LOUBSER

CA (SA) and MCom in Statistics.

Russel Loubser was appointed to the Board in 2009 and member of the Audit and Nominations Committee. He is the CEO of the JSE. Until his appointment at the JSE, he was Executive Director of financial markets at Rand Merchant Bank Limited (RMB). He joined RMB from Finansbank and was part of the team which started the futures industry in South Africa. He was Chairman of SAFEX, is an Extraordinary Professor in Mercantile Law at the University of Pretoria and was appointed to the University's Council in 2007. He is a member of the King Committee on and serves on the Board of Directors of the World Federation of Exchanges.



MR BONANG F MOHALE

Chartered Marketer (CM (SA)), diplomas and certificates in Marketing and Sales Management.

Bonang Mohale was appointed to the SAA Board during September 2009 and was the Chairperson of the Audit Committee until 31 March 2010 and is Chairman of South African Travel Centre. He is currently the Chairman and Vice President: Sales and Operations of Shell South Africa (Pty) Limited, where he is Chairman of the Boards of Shell South Africa Holdings (Pty) Ltd, South African Petroleum Refinery (SAPREF), Shell South Africa Marketing (Pty) Ltd and Shell South Africa Refinery (Pty) Ltd. Before Shell he was the CEO of Drake & Scull FM SA (Pty) Ltd, CE of Shared Services and Associated Companies of Sanlam, alternate director of the Sanlam Limited main Board, Chairman of the Board of TASC, a director of Innofin, Gensec Property Services and Fundamo.

MS DUDUZILE C MYENI

B.Admin (2 majors outstanding), Secondary Teachers' Diploma (Commerce), Business Skills for South Africa (BSSA), Advanced Business Management Diploma, Leadership and Management Development Certificate.

Duduzile Myeni was appointed to the SAA Board in September 2009 and to the Air Chefs Board in April 2010. A philanthropist and an entrepreneur, she is the CEO of Skills Dynamics, consulting for various blue chip companies. Chairperson of the South African Association of Water Utilities (SAAWU), Director of Trade and Investment (KZN), Chairperson of Mhlathuze Water Board. Became a member of the Provincial Board of ABSA and Deputy President of the Zululand Chamber of Commerce and Industry. She is also a director of Alan Dick SA (Pty) Ltd, a total communications infrastructure solutions provider. Currently the Chairperson of the JZ Foundation (SA). In her spare time, she gives inspirational talks for corporate and community groups on topics such as transformative leadership, diversity dynamics, change management and women in leadership. She participated in the Stephen Covey Leadership Conference in Utah, USA.

NON-EXECUTIVE DIRECTORS

MR JABULANI P NDHLOVU

B.Admin Hons (Organisational Psychology) from the University of KwaZulu-Natal, Oxford Advance Management programme (Said Business School, Oxford University, UK).

Jabulani Ndhlovu is the HR Director, Microsoft South Africa since 2008. He joined Microsoft from Barloworld where he also held the position of Divisional Human Resources Director, Barloworld Logistics. He started his career at Accenture (formerly, Andersen Consulting) as a Business Integration Consultant and, during his time, he worked in a number of business integration and organisation development assignments, in various industries and clients, in South Africa and in the UK. His industry experience span over retail, oil and energy, banking, telecommunications, utilities, ICT and governments. During his time at Accenture, Jabu also worked at the Andersen Worldwide Centre of Professional Education, St. Charles, United States of America as Learning Coach in Change Management and Organisation Development programmes.

ADV LINDIWE G THOMAS

Practising Advocate of the High Court of South Africa and has been a member of, inter alia, the Johannesburg Bar since 1995.

Lindiwe Thomas was appointed to the Board of SAA in September 2009 and is a member of the Audit Committee. She was appointed to the Board of Mango (a subsidiary of SAA) and to its audit committee in October 2009 and January 2010 respectively. Advocate Thomas was elevated to the level of Senior Counsel in December 2009 by the President of the Republic of South Africa. She has a diverse practice, with special interest in commercial, administrative, constitutional, labour, mining, aviation and construction law related litigation and arbitrations. She has acted as a Judge of the High Court of South Africa on numerous occasions, in both the South Gauteng High Court and North West High Court. She previously served as a Non-Executive Director of the Soul City Broad Based Empowerment Company (Pty) Ltd, a company that invests in South African companies to raise endowment equity for its beneficiaries.

MR LOUIS J RABBETS

Bachelor of Business Science, Actuarial Science (B.Bus.Sc.) UCT, Fellow of the Institute of Financial Markets (FIFM).

Louis Rabbets was appointed to the Board in December 2009, is Chairperson of the Procurement and Tender Processes Committee and serves on the Finance, Risk and Investment Committee. He is the Executive Chair of Quant Capital. Previously he held positions in the investments division of Sanlam, the treasury division of Standard Bank and the Asset and Liability Management division of National Treasury where he conducted comprehensive best practice reviews of the treasury operations of several major state owned enterprises. He has extensive experience in financial markets, treasury and risk management.

MR ZAKHELE J SITHOLE

CA(SA), BCom (Accounting), B Accountancy, Certified Fraud Examiner, Higher Diploma in Company Law, Higher Diploma in Tax Law.

Zakhele Sithole is currently the Executive Chair of Sithole Inc, and also a director of the Command Holdings Ltd, Board Member and Chair Allied Technologies Limited, Board Member and Chair of the Audit Committee of SAA, Board Member Public Investment Corporation (PIC), Member of Audit and Risk Committee, Chair of the Human Resources and Remuneration Committee, Board of Governors University of Zululand.

NON-EXECUTIVE DIRECTORS

MS MARGARET M WHITEHOUSE

BA (Business Science), Honours in Marketing

Margaret Whitehouse was appointed to the SAA Board since 2006. She is the Chairperson of the Airchefs Board and a member of the Procurement and Tender Processes Committee. With a background of working in multinationals such as Unilever, as well as extensive work within the South African Government, she has experience in building and marketing brands, with a passion for world-class African brands.

EXECUTIVE DIRECTORS

MS SIZAKELE P MZIMELA

CEO

BA (Economics and Statistics), Henley Certificate in management, Executive Programmes

Sizakele Mzimela's career began in 1991 at Standard Bank SA, followed by tenure at Total SA, where she was responsible for managing capital projects. She joined South African Airways (SAA) in 1996, working in various senior roles including that of Regional General Manager for Africa and the Middle East. In November 2001, she was appointed Executive Vice President of Global Passenger Services, overseeing SAA's airport operations both locally and abroad. Soon after, she was responsible for the airline's core business: Global Sales and Voyager, setting the overall strategic direction and actively managing and reducing costs. She was also tasked with the strategic positioning of SAA and optimising alliance partnerships. She was appointed Chief Executive of SA Express Airways on 1 October 2003. The company registered substantial growth under her leadership, resulting in the eradication of the airline's former state of technical insolvency, without recapitalisation. Her experience and intensive knowledge of the aviation industry, business acumen and positive attitude culminated in her appointment as Chief Executive of SAA on 1 April 2010.

MR KAUSHIK R PATEL

CFO

Bachelor of Accounting Science (Honours), CA (SA)

Kaushik Patel was appointed as Chief Financial Officer from December 2007. Prior to this he served as CFO of Telkom Ltd, Finance Executive for The African Bank Ltd in 1997 and Financial Director of Teba Bank Ltd in 1999. He has extensive expertise in financial matters, and is well versed in the key financial issues of state-owned enterprises and the requirements of the Public Finance Management Act (PFMA), government relations, with extensive commercial experience both locally and internationally, as well as being experienced in the turnaround of state owned enterprises. He also has extensive experience in the listing of companies as well as financial markets with a strong banking background.

MR CHRIS SMYTH

Acting CEO (Feb 2009 – March 2010), General Manager Operations

Bachelor of Commerce degree, postgraduate Diploma in Accountancy (University of Natal), CA(SA), commercial pilot's license.

Chris Smyth served as the airline's acting CEO for the full financial year, but holds the permanent post of General Manager of Operations, in which he is responsible for the airline's pilots, cabin crew, global operations control, in-flight logistics, customer care, airports and terminal staff at all the airports SAA serves, aviation security and aviation safety. He has extensive financial experience in the African aviation industry having served as Group Finance Director of Kenya Airways, Chief Financial Officer and Board Director of Virgin Nigeria Airways in previous positions.

"B"

SOUTH AFRICAN AIRWAYS

A STAR ALLIANCE MEMBER

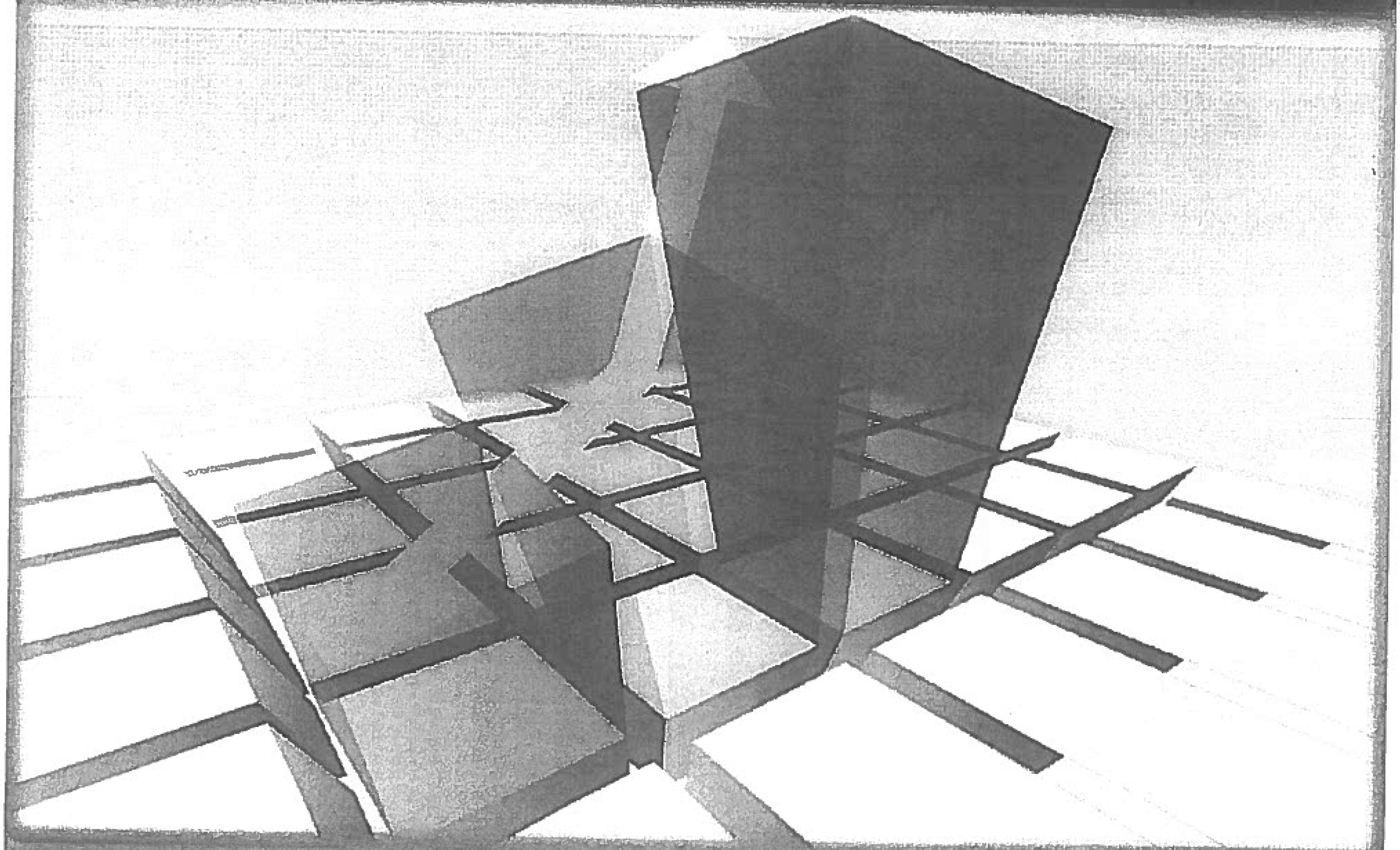
CEO & Chairperson Ministerial Meeting 18 April 2011

Table of Contents

Competition Commission & Litigation

competitioncommission

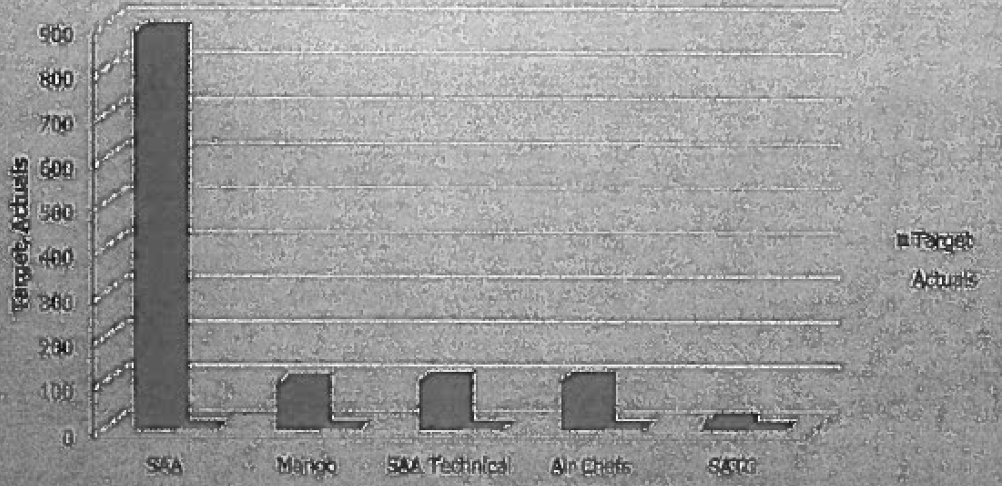
New Growth Plan (Job Creation Targets)

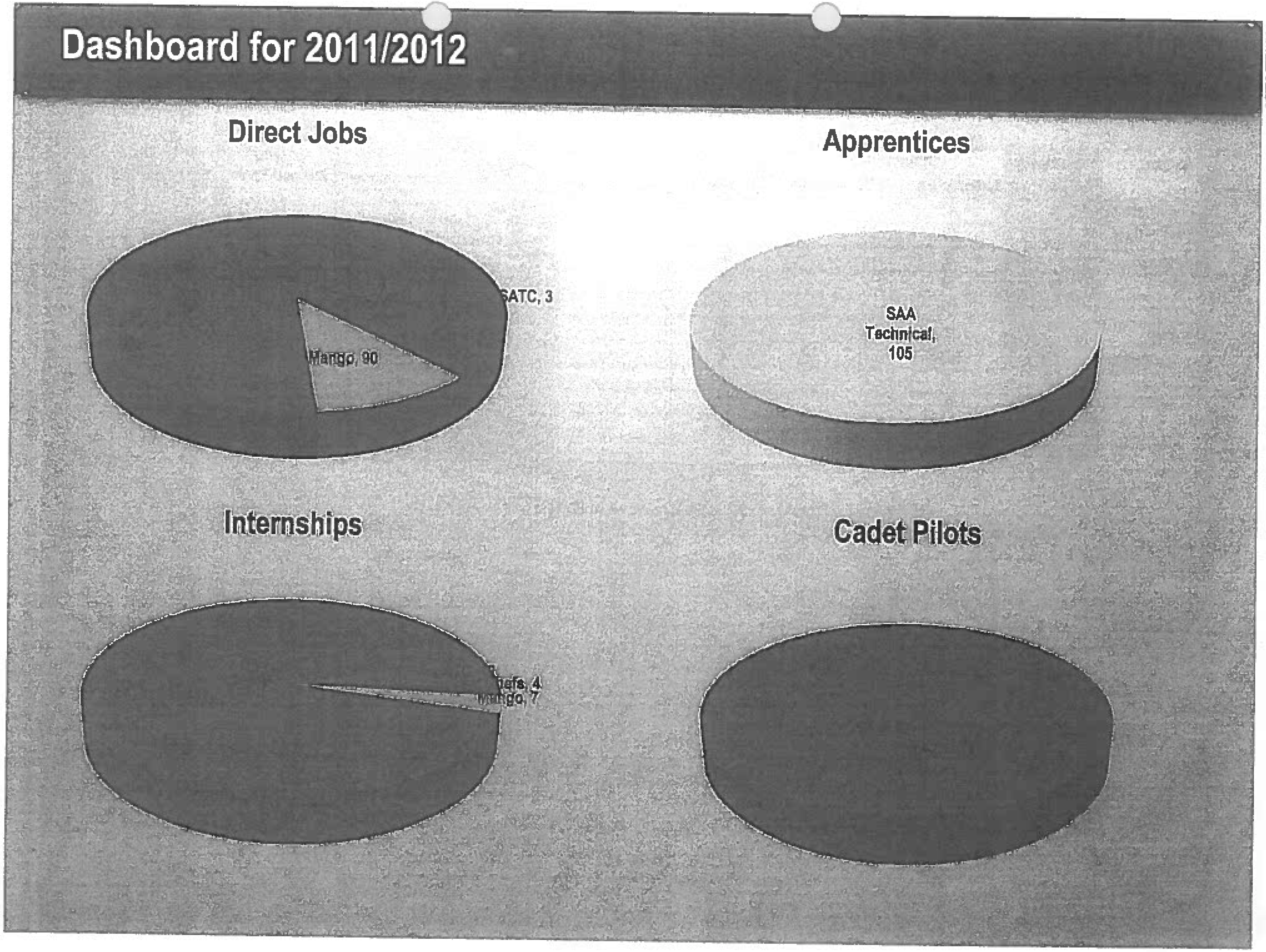


Dashboard for 2011/2012

Job Creation KPI's									
Areas	Vacancies	Internship		Apprentices		Cadet Pilots		Other Direct Jobs	
		Internships	YTD Actuals	Apprentices	YTD Actuals	Cadet Pilots	YTD Actuals	Direct Jobs	YTD Actuals
Commercial	0	72		0				77	
Operations	25	79		0		42		173	
Finance	0	6		0				49	
HR	0	60		0		0		0	
Cargo	0	10		0		0		319	
Other	0	0		0		0		0	
SAA Total	**25**	**227**		**0**		42		**618**	
Mango	0	7		0		0		90	
SAAT	0	0		105		0		0	
Airchefs	0	4		0		0		102	
SATC	2	12		0		0		3	

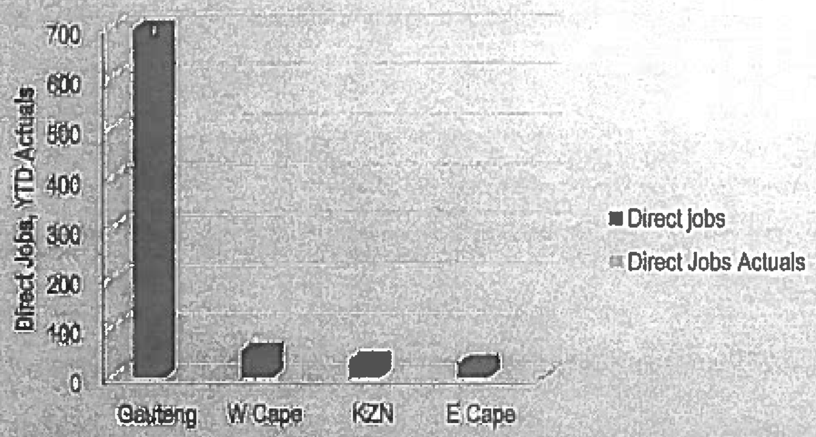
Job Creation Per Division : Target vs Actual

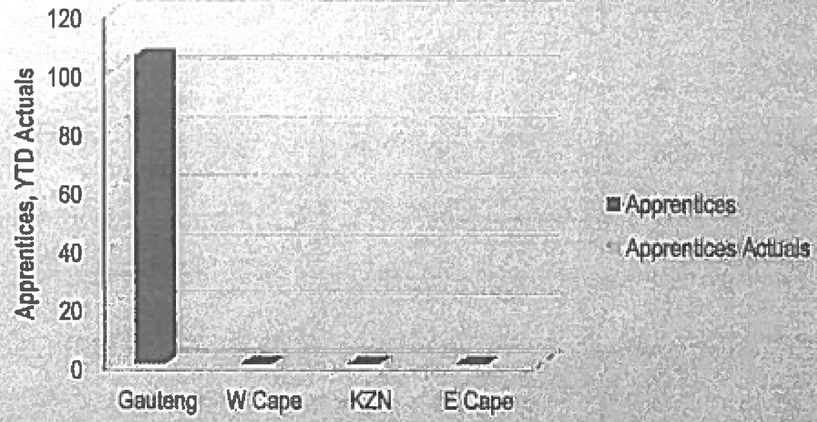


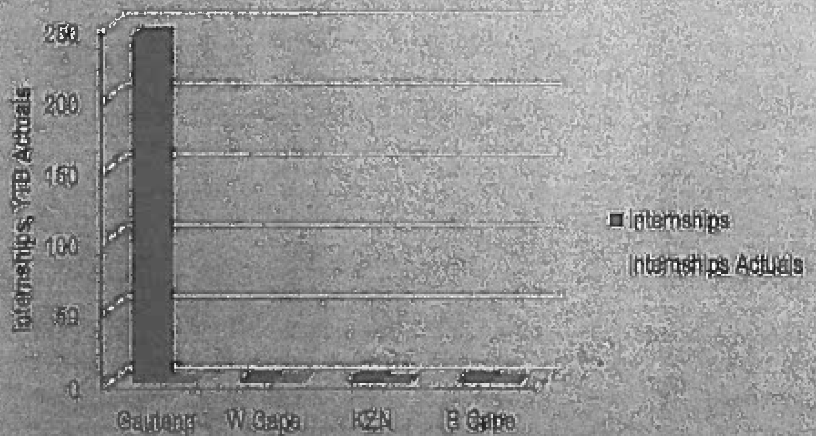

Dashboard for 2011/2012
Direct Jobs
SATC, 3
Mango, 90
Apprentices
SAA Technical, 105
Internships
Cadet Pilots

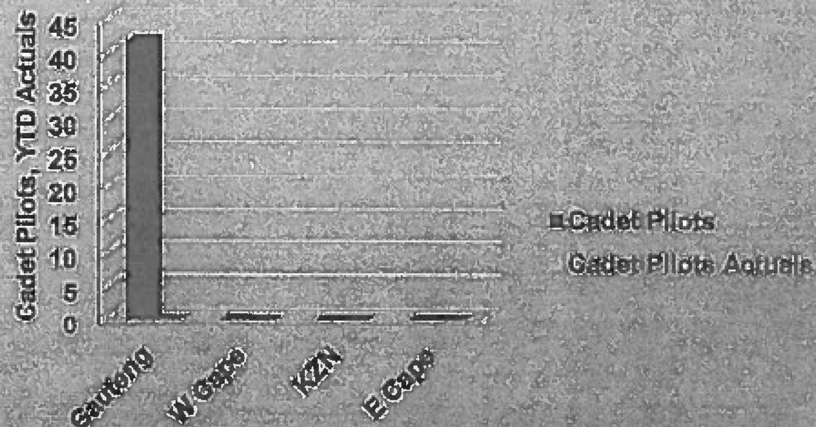
Dashboard for 2011/2012

Split by Job Type By Province Target vs Actual



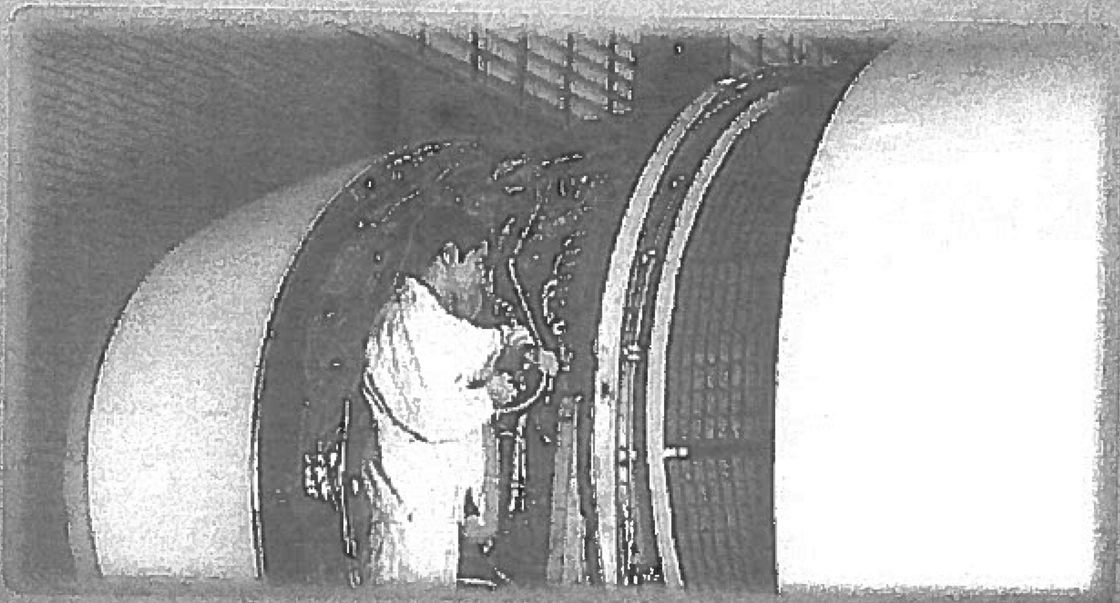






SAA Technical Training

- South African Airways Technical (Pty) Ltd (SAAT) is an approved Foreign Repair Station (FAA) having approval number DW5Y820M with headquarters at O R Tambo International Airport.
- In order to comply with local requirements and also in particular FAR 145.163, SAAT have developed an employee training curriculum which is acceptable to the South African Civil Aviation Authority (SACAA), for qualifying persons to work on and sign for scheduled and unscheduled maintenance /overhaul of aircraft and components within the scope of approval/s issued by the various regulatory authorities.
- SAAT is primarily responsible for maintenance of SAA aircraft, but have entered into contracts with local , regional and international airlines.



Challenges in the aviation industry

- Changing landscape of the aviation industry requires different skill sets and talented individuals
- Technology has moved ahead at the speed of light
- Increasing demand for specialised skills
- Increasing labour costs and the need for a well defined flexible staffing model
- Attracting the right candidates as Maths and Science are both required for entry into the Learnership programs

The sole purpose of SAA Technical Training is to recruit, train and produce highly qualified technicians

SAA Technical Training has been training for more than 50 years and we have built a reputation within the Aviation Industry to produce high quality Technicians for both the local and international Aviation sector

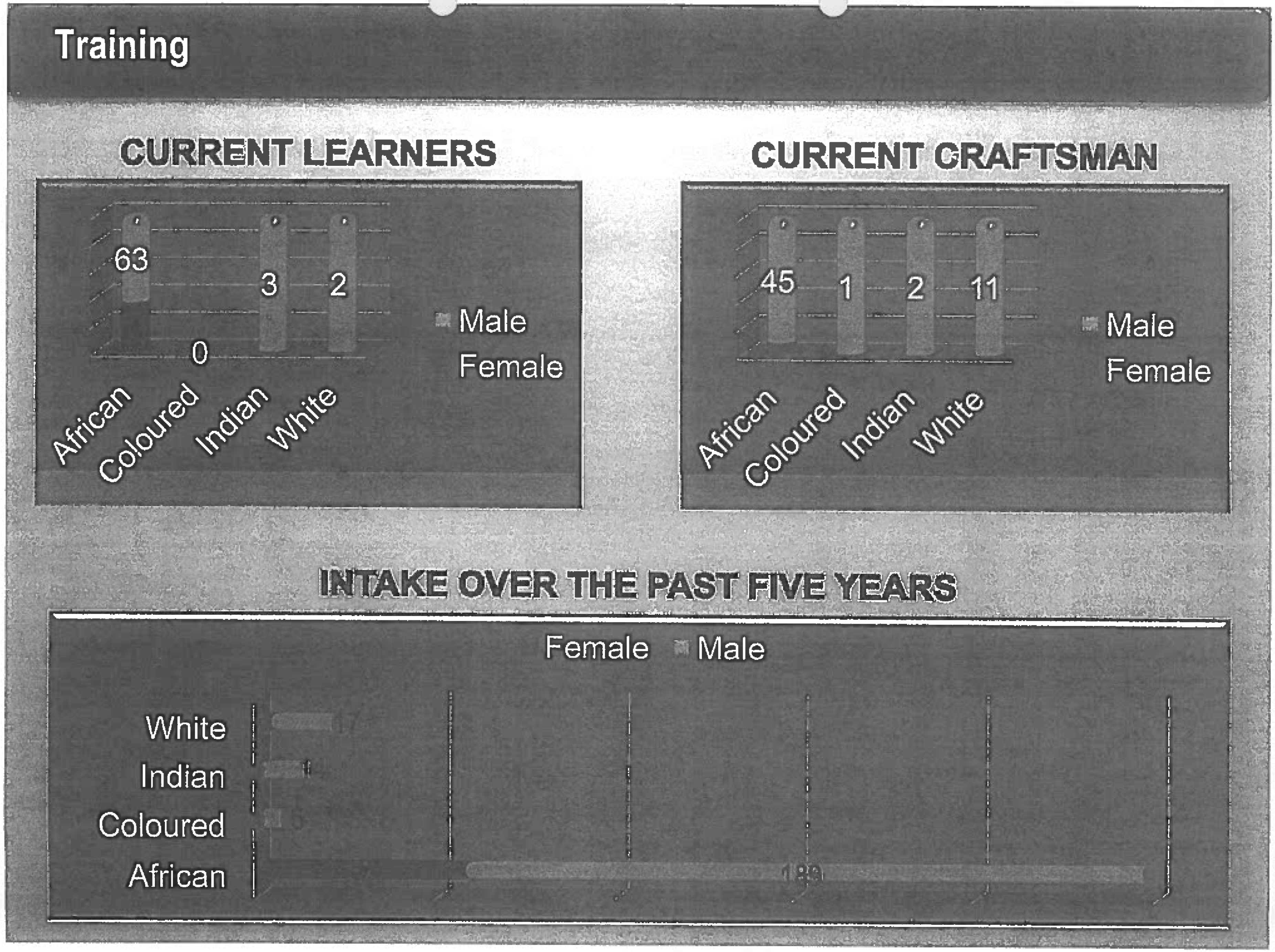
Training

Maintenance Training

- This department's primary function is to support SAAT's training requirements to deliver type courses which are used for staff licensing purposes.
- These courses are presented to qualified employees.
- It has the capability to conduct:
  - Training and Examinations up to and including level 3 Line and Base Maintenance.
  - Ground run Training – simulator and live Aircraft.
  - On The Job (OJT) training.
- An employee who has qualified and completes all the courses could obtain his /her certification after 2 years.

Apprentice Learnership Training

- The following trades are currently being offered at SAAT:
  - Aircraft Mechanic.
  - Aircraft Electrician.
  - Aircraft Instrument .
  - Aircraft Radio
  - Aircraft Structures Worker.
  - Aircraft Welder.
  - Aircraft Turner and Machinist.
  - Aircraft Painter.
  - Aircraft Trimmer.
  - Aircraft Electroplater.
  - Aircraft Composite Structure Worker.
- A learner can complete any of the above mentioned programs in 2-3 years.


Training
CURRENT LEARNERS
63
0
3
2
Male
Female
African
Coloured
Indian
White
CURRENT CRAFTSMAN
45
1
2
11
Male
Female
African
Coloured
Indian
White
INTAKE OVER THE PAST FIVE YEARS
Female
Male
White
Indian
Coloured
African

The Future

- A total number of 535 apprentices will be enrolled in the next 5 years. This is SAAT's contribution to the creation of employment opportunities
- The number of apprentices could be increased to 150 p.a. with changes to the funding model

	2011	2012	2013	2014	2015	Total
Current Enrolment Plan	90	105	110	115	115	535
Additional Enrolment with Government Assistance	93	95	96	85	85	454
Assuming 90% Pass Rate	42 *2009 enrollment*	46 *2010 enrollment*	165	180	185	618

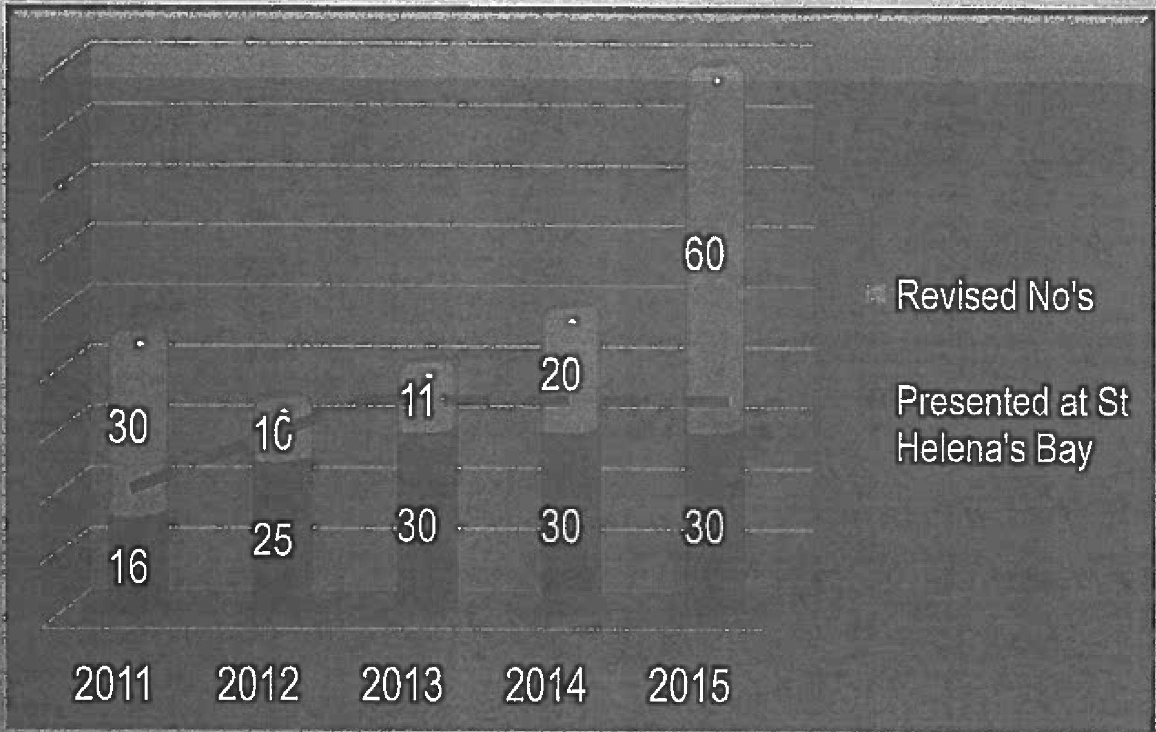
SAA Technical Training & Denel Aviation

- Denel approached SAA on 15th March 2011 with the aim of finding common purpose and synergies between the two entities
- It was agreed that Denel would draw up a formal proposal which may evolve into an MOU for further discussions
- Currently the MOU has been drawn up, commented upon by both parties and is with Legal for finalization
- Further informal discussions on the topic were held during the recent MRO conference and a meeting for technical discussions was scheduled for 21st April, 2011. Amongst others, the following will be discussed:
  - *Identify the Training that is being provided by each Institution.*
  - *Identify areas where there is an overlap in Training.*
  - *Do an analysis of each Training Institution to determine the strengths and weaknesses .*
  - *Identify the Infrastructure of each Institution focusing on*
    - *a) Facilities*
    - *b) Utilization of facilities and Instructors*
    - *c) Determine if we have capacity to Train more learners*
  - *Look at the viability of such a venture based on the outcome of the analysis*

Cadet Pilot Programme

Cadet Pilots

- SAA to re-launch its **<u>Cadet Pilot Scheme</u>** in the 2011/12 financial year.
- A target of 131 *ab initio* pilots from PDI groups are envisaged to be trained over the next 5 years increasing year on year for the first three years through the SAA Cadet Scheme and other strategies.



SAA Pilot Transformation Strategies

Five individual strategies have been identified which should yield the required Pilot numbers:-

		Estimated
1.	Current SAA Cadet Induction – Short Term (2011 – 2012)	30
2.	Internal Self Development Pilots – Short Term (2011 – 2012)	10
3.	Self Development Pilots – Short Term (2011 – 2012)	11
4.	African Aviation Training Initiative – Med Term (2011- 2014)	20
5.	SAA Flight Academy – Med to Long Term (2014 – 2015)	60
		131

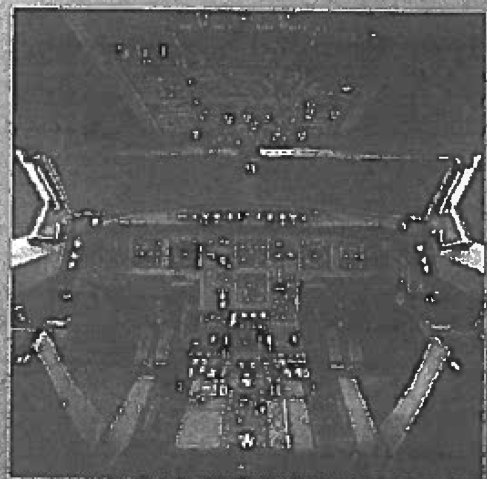
In addition there are 81 Black South Africans who hold SA Professional Pilot Licences and are working elsewhere in the industry. The team will be engaging these pilots and assessing their experience with a view to developing them to induct suitable candidates on an early entry strategy.

Current Cadet Pilot Induction

1. 39 Cadets are still busy with internships at Feeder Airlines.
2. Induction into SAA is too slow.
3. Decision taken in 2010 to induct Cadets with limited experience.
4. Personal Development Programs (PDPs) put in place.
5. Focussed on passing In-Flight Relief (IFR) Pilot Course.
6. When complete Cadets are inducted into SAA as IFR Pilots.
7. During their tour as IFR Pilots further PDP undertaken.
8. Focus is now on Domestic Co-Pilot Course (A320).
9. This is the "Acid Test" – Failure not an option.
10. Once past this hurdle, pilots join normal Pilot stream.
11. 3 Pilots already inducted, next group (10) are undergoing first PDP.
12. Can conservatively expect this program to produce 30 Pilots in the period.

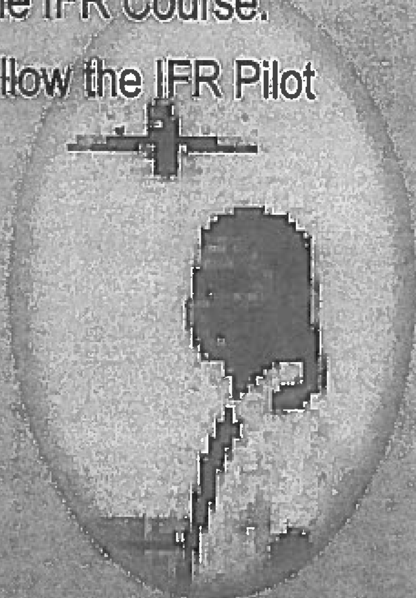
Internal Self Development Pilots (ISDPs)

1. There are a number of SAA employees busy with flying training.
2. Most are struggling to finance their Private Pilots Licence.
3. Plan is to evaluate their progress thus far and award bursaries to multi-engine Commercial Pilot Licence (CPL) with Instrument Rating (I/R) level to those with promise.
4. Progress will be closely monitored and top graduates will be evaluated and PDPs structured to get them through IFR Pilot Course before joining the Cadet Pilot stream.
5. Identification and training to CPL/IR level will be completed during 2011 – 2012.
6. IFR Course and in-house development 2013 – 2014.
7. At this time a target of 10 Pilots is expected.



Self Development Pilots (SDPs)

1. It has come to our attention that there are a number of PDI Pilots who are attempting to achieve their CPL/IR on their own.
2. The intent is to approach the Flight Schools to identify these individuals.
3. After evaluation, those that have the potential will be offered Bursaries as for the internal candidates.
4. On completion of their CPL/IR they will be re-evaluated and those with sufficient potential will be placed on a PDP to prepare them to undertake the IFR Course.
5. If they can make this step they will be offered employment and follow the IFR Pilot with Development stream.
6. We hope to capture 11 Pilots over the period from this scheme.



African Aviation Training Initiative (AATI)

1. The AATI is a joint initiative between SAA and the SA Air Force to transform the SA Pilot demographics.
2. The AATI has shown significant promise to become the replacement for the original SAA Cadet Pilot scheme.
3. We have however found that the progress is too slow and we have no reason to believe that this will change in the near future.
4. We have taken the decision to meet with the Chief of the Air Force and make this known to him, while leaving the channel to remain open for future co-operation in Pilot Training.
5. We believe that a group of 8 SAAF Pilots could be transferred to SAA during 2011 to be trained as IFR Pilots.
6. Following full development they would be shared 75/25% between SAA and SAAF.

SAA Flight Academy – Proposal Assumptions

Some assumptions are:

- Best practise in airline pilot education and training must be embraced.
- The basis of the Academy curriculum will be the Multi-Crew Pilot Licence (MPL) philosophy which trades long years of gaining experience in General Aviation before being inducted as an Airline Pilot, with intensely focussed training towards a Co-pilot position on a modern airline jet. Typically, entry to the Airline occurs after 2-3 years as opposed to the current 7.
- SAA to be integral to the business model, including the education and training system.
- The establishment of a separate division for training, as part of the SAA group, is not inconceivable.

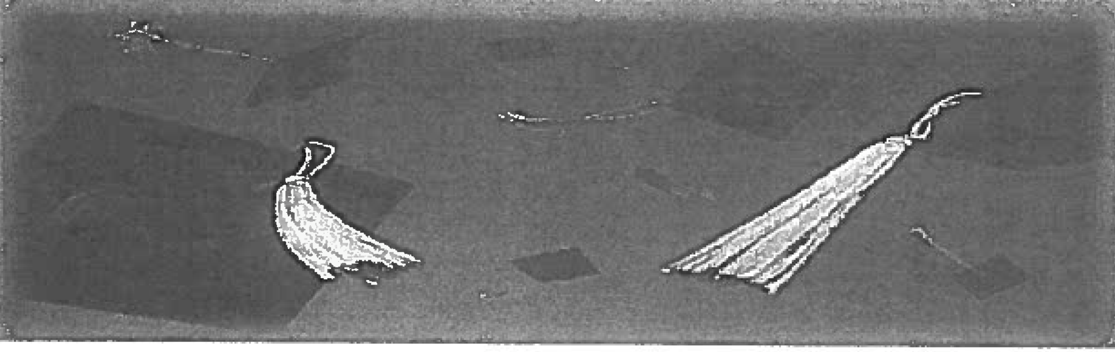
SAA Flight Academy

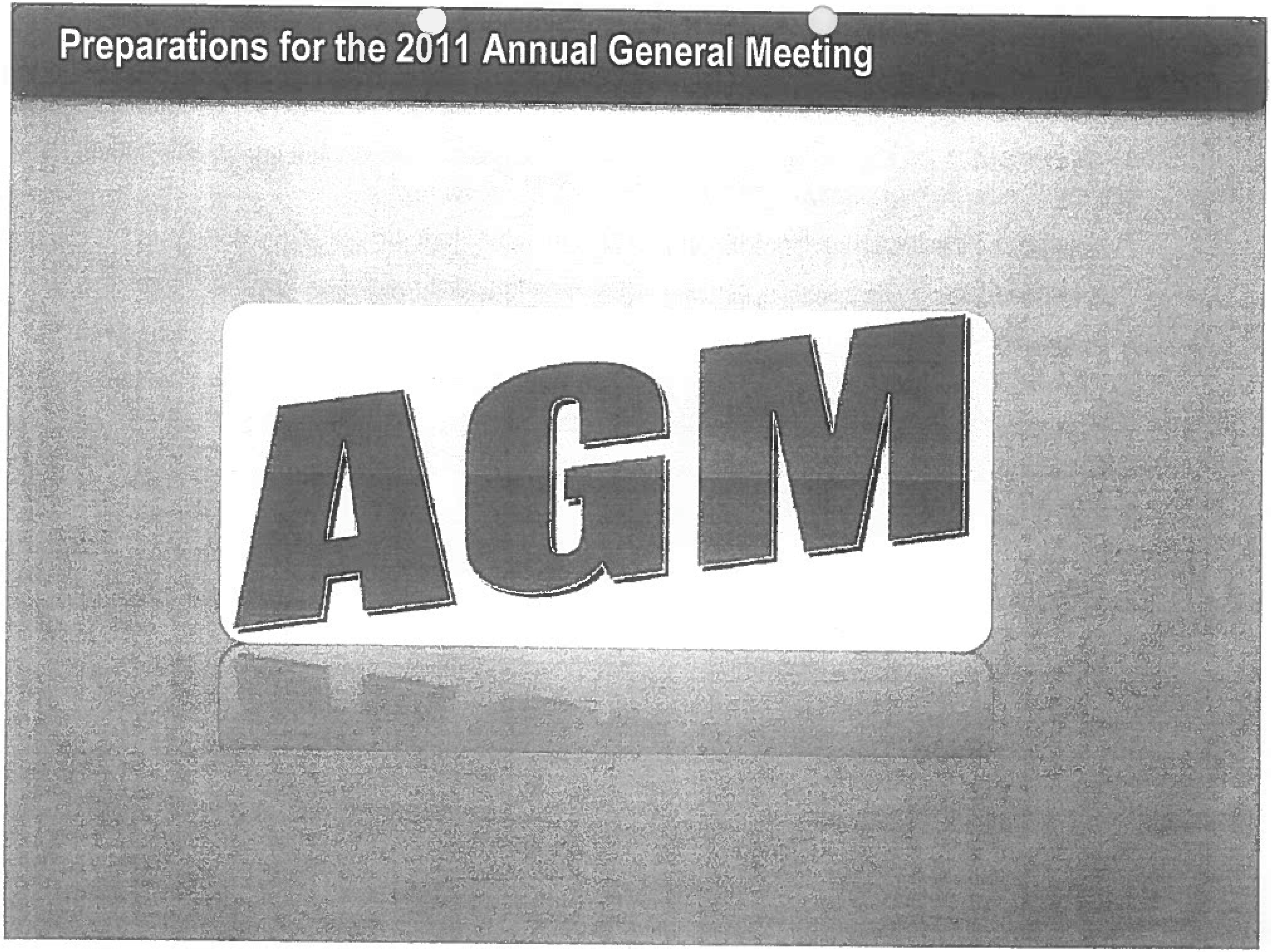
1. If SAA is going to transform the demographics of the Pilot group it has to establish a constant stream of PDI Pilots on a sustainable basis (30-50).
2. The key issue is that a world class flight school must be established in close proximity to SAA Base at OR Tambo Airport.
3. The Academy must be controlled by SAA but it is preferable that a partner whose core competency is Airline Pilot training from Ab-Initio to Modern Jet Co-Pilot is found.
4. A School of this nature requires a higher throughput (+/- 100 per annum) than SAAs requirement.
5. Dilution of Capital Cost is an added benefit.
6. The CEO has approved a study to identify the optimum structure, ownership and identify possible partners to be completed by August 2011.
7. A Request for Proposal will be issued before the end of 2011.
8. The structure of the Academy Curriculum is as follows:-

Pre-IPD	IPD Phases (Integrated Pilot Development = IPD)				
PHASE 0	PHASE 1	PHASE 2	PHASE 3	PHASE 4	PHASE 5
Aviation Awareness and Orientation	Core ET: Aviation skills development	Basic ET: Advanced single engine flying training	Intermediate ET: Jet flying bridging and airline orientation	Advanced ET: Personal development programme	Command development programme
Recruitment and Selection	Ab initio flying training. Single engine operations	Basic multi-engine flying training (Optional)	Second Officer conversion and line flying on Long range aircraft	First Officer conversion and line flying on Domestic Aircraft	Command Conversion and line flying on Domestic Aircraft

SAA Flight Academy

1. A key element in the long term success of the transformation initiative is to create a constant stream of suitable High School graduates into the SAA Academy.
2. The Aviation Industry competes with other professions for the top High School Graduates.
3. The Aviation industry is driven by passion rather than financial reward.
4. A strategy is being established, "Phase -1", to instil that passion in Grade 8 – 11 Learners throughout the Country.
5. The project is based on work done by one of our Boeing 737 Co-pilots, Moses Tshibalanganda, who has started such a program in his own community.
6. Phase -1 will visit Schools and do a presentation on the career path of an Airline Pilot encouraging children to focus on Mathematics and Science in School.
7. We will then fly 20 – 30 children to an Air Show for a day in one of our Museum Aircraft and allow them to experience the excitement of the industry. A Fuel budget is all that is required as there is no shortage of volunteers to give up their time to fly the aircraft and support the project




Preparations for the 2011 Annual General Meeting
AGM

Changes to the GCC Initiatives

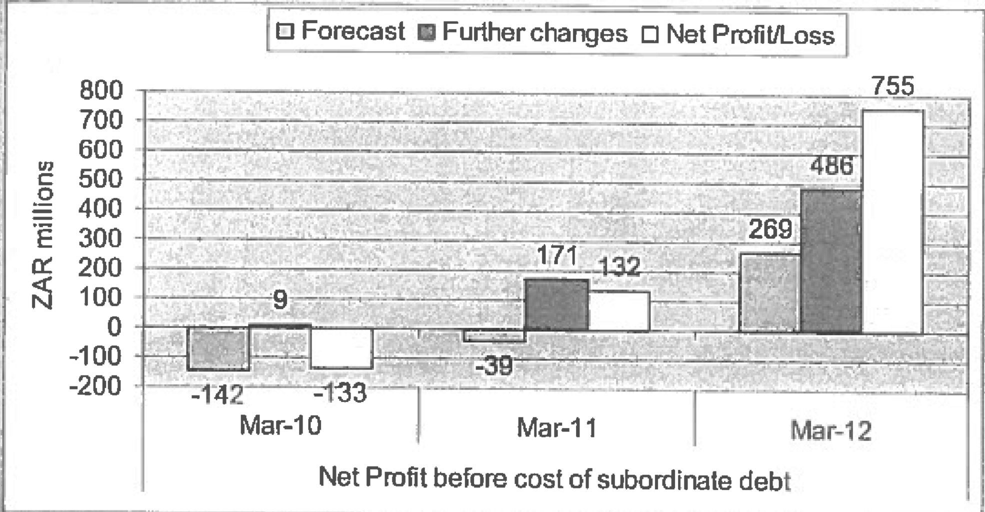
Translation of GCC initiatives to new Strategy

SAA Fuel Surcharges strategy

Contents

The revised business plan: Summary

To the forecast further structural and operational improvements were added to improve profitability

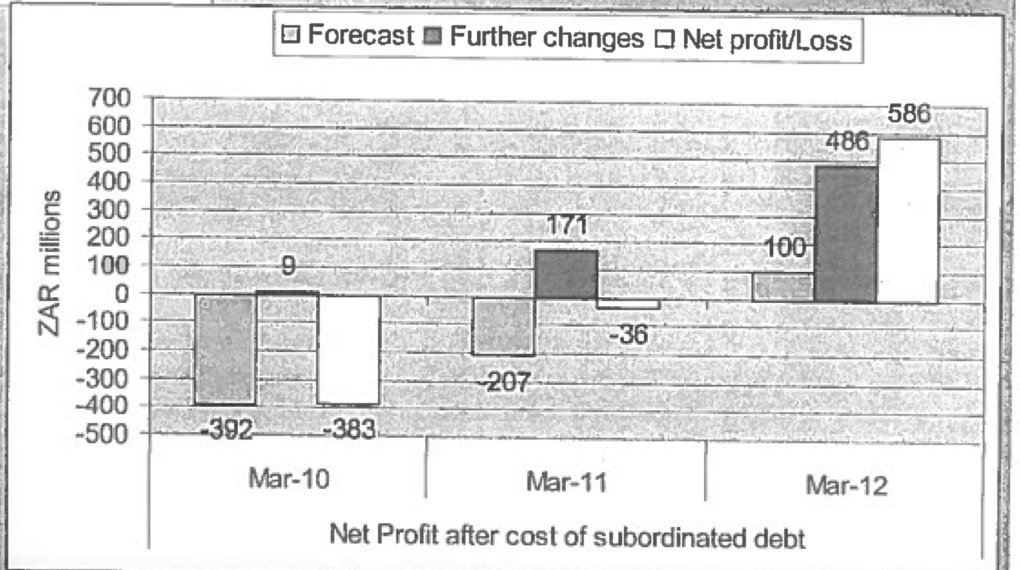


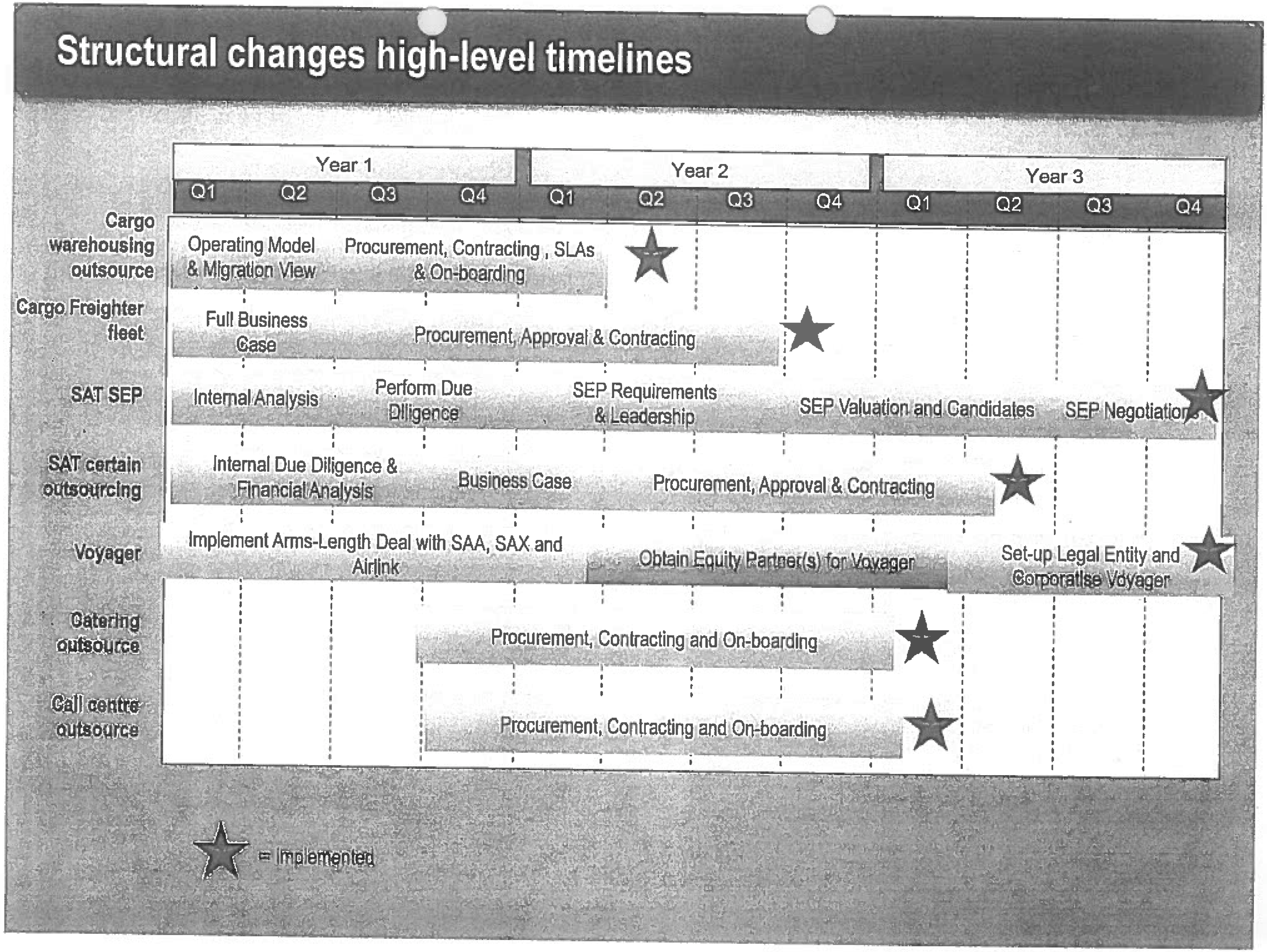
Structural improvements include:

- Restructuring of Voyager
- Restructuring of Cargo fleet and warehousing
- Restructuring of Catering
- Establishing SAA Technical (SAAT) as a multi-airline focused African maintenance hub
- Restructuring of Mango

Operational improvements include:

- Route restructurings
- Optimisation of procurement, HR, operations and sales force
- Review of hedging policy
- ATL alternative funding project




Structural changes high-level timelines
Year 1
Year 2
Year 3
Q1
Q2
Q3
Q4
Cargo warehousing outsource
Operating Model & Migration View
Procurement, Contracting , SLAs & On-boarding
Cargo Freighter fleet
Full Business Case
Procurement, Approval & Contracting
SAT SEP
Internal Analysis
Perform Due Diligence
SEP Requirements & Leadership
SEP Valuation and Candidates
SEP Negotiations
SAT certain outsourcing
Internal Due Diligence & Financial Analysis
Business Case
Procurement, Approval & Contracting
Voyager
Implement Arms-Length Deal with SAA, SAX and Airlink
Obtain Equity Partner(s) for Voyager
Set-up Legal Entity and Corporatise Voyager
Catering outsource
Procurement, Contracting and On-boarding
Call centre outsource
Procurement, Contracting and On-boarding
= Implemented

Summary of operational changes

1. **Route restructuring** in order to operate only profitable international routes. SAA will operate only **profitable international routes** by 31 March 2010. Network profitability must exceed any loss of an individual international route.

2. **Reduce Capex** from R1.2bn to R795m

3. **Procurement optimization** in order to achieve annual saving of R73m

4. **HR and people optimisation** to result in R103m saving
   - Possible **outsource of HR shared service functions**

5. **Sales force optimisation** = R51m

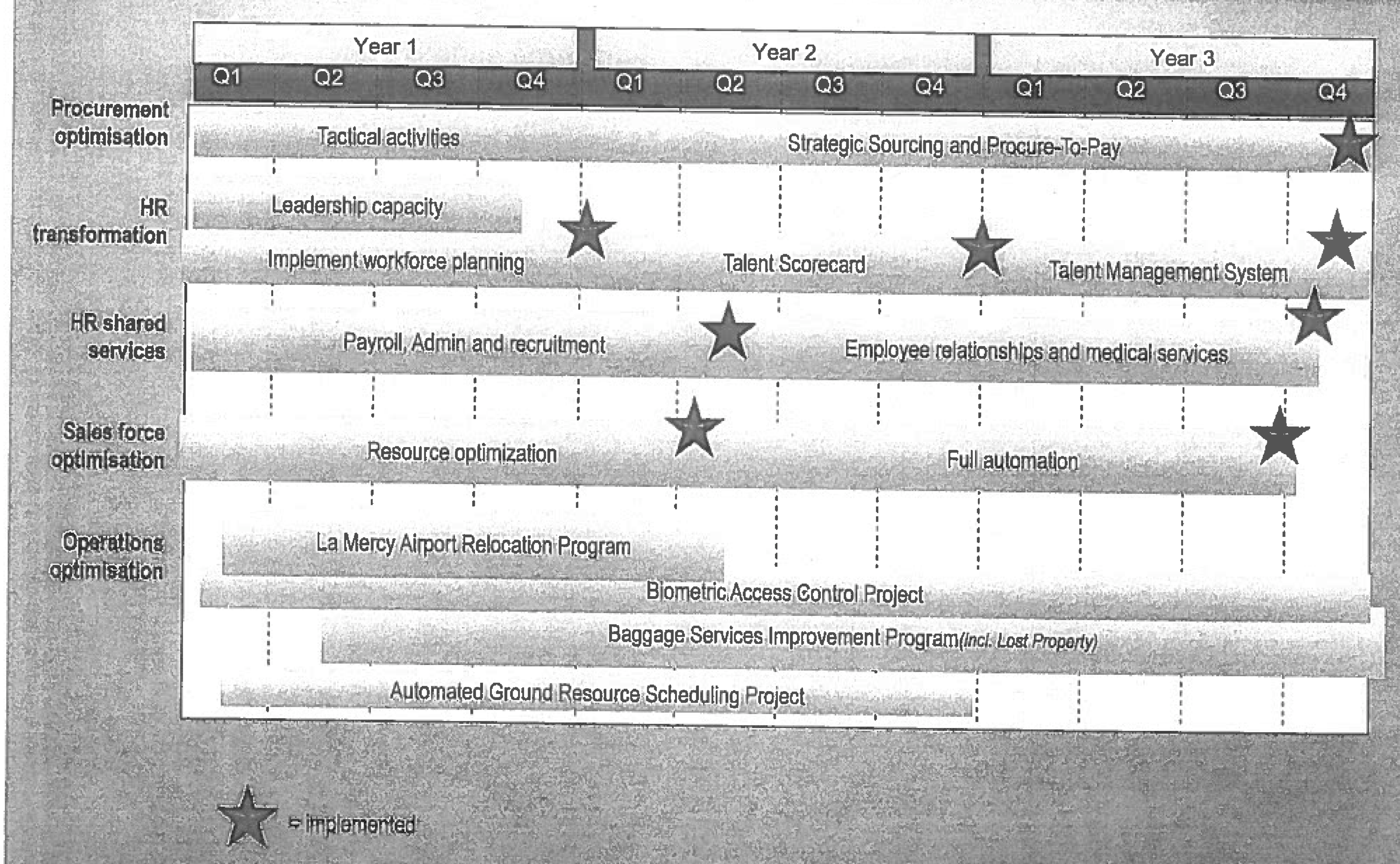
6. **Operations optimisation** = R40m

7. Review need for **hedging** based on natural hedge and total losses over SAA's known history – to be completed by 31 December 2009

8. **Space optimization** = move of head office to space third of current size and rent out/sell building

9. Implement **further people initiatives** if market conditions deteriorate further

Operational changes high-level timelines



Changes to original GCC committments

1. Restructuring of Voyager

GCC

- Implement Arms-Length Deal with SAA, SAX and Airlink
- Obtain Equity Partner(s) for Voyager
- Set-up Legal Entity and Corporatise Voyager

Changes

- Arms length implemented (Voyager own P&L)
- Re-costing of Miles completed
- New redemption opportunities

2. Restructuring of Cargo fleet and warehousing

GCC

- Outsource Cargo Warehousing
- Cargo fleet reduction

Changes

- Outsourcing of warehousing not viable as more expensive
- Replaced with cost saving initiatives which are currently being achieved
- R60m stretch added to 11/12 budget on top of growth

Changes to original GCC committments cont.

3. Restructuring of Catering

GCC

- Sell Air Chefs

Changes

- Decision taken to keep Air Chefs and rebuild for next 2 years

4. Establishing SAA Technical (SAAT) as a multi-airline focused African maintenance hub

GCC

- Strategic equity partner
- Outsource Major Maintenance

Changes

- SH&E restructuring work concluded
- Business plan submitted and completed 31 March 2011
- R100m stretch added to current year target

Changes to original GCC committments cont.

5. Restructuring of Mango

GCC

- 3 Options considered

Changes

- Expansion decision taken
- CPT-DUR implemented successfully

6. Operation initiatives

GCC

- Route restructuring
- Various optimisations – Procurement, HR, Sales force, operations, space
- Review hedging

Changes

- Route restructuring decision matrix set-up
- Optimisations are continuous and built into 11/12 budget
- New FRMP completed and continuously being monitored

How do we shift from GCC initiatives to SAA Strategy

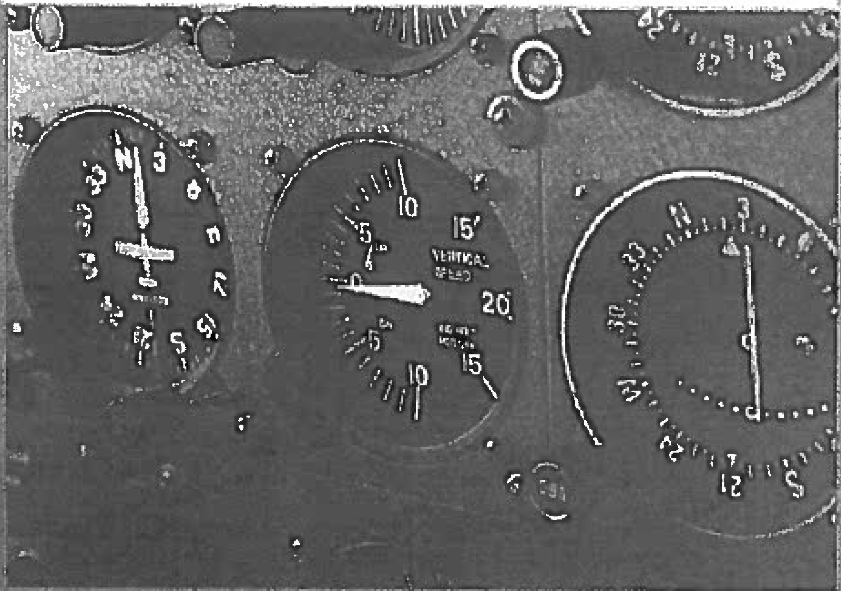
1. Measure structural changes via new Shareholders Compact (All GCC initiatives have ben built into the underlying assumptions behind the 11/12 budget)

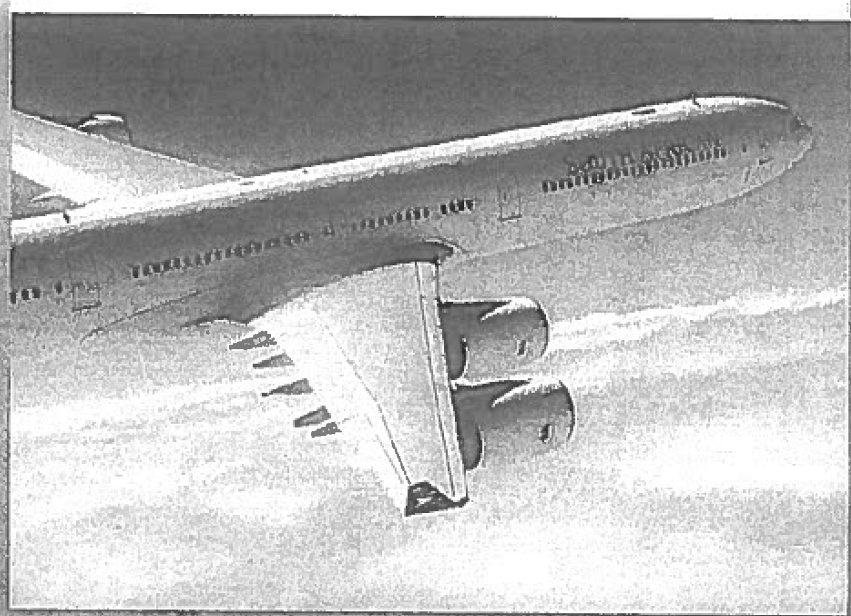
GCC	SAA Strategy
Restructuring of Voyager (R38m)	5% NP margin
Restructuring of Cargo fleet and warehousing (R81m)	8% NP margin
Restructuring of Catering (R0m)	5% NP Margin
Establishing SAA Technical (SAAT) as a multi-airline focused African maintenance hub (R95m)	4.5% NP Margin Multi-Airline focused African maintenance hub
~~Restructuring of Mango~~	~~Completed~~

How do we shift from GCC initiatives to SAA Strategy

1. Measure operational changes via new Shareholders Compact

GCC	SAA Strategy
• Route restructurings	• Net retained earnings
• Optimisation of procurement, HR, operations and sales force (R273m)	
• Review of hedging policy	• Ongoing





Reporting going forward

Monthly meeting

Maintain financial section of Monthly meeting, including the following:

- High level overview of financials (Incl. BS and CFS), brief review of 3 markets,
- KPI's including the new page below for the restructuring KPI's

KPI's	Due Date	YTD	Commentary
Voyager			
Net profit of 5% of Voyager Revenue	Per Annum	XXX	
Voyager Liability			
Voyager liability reduction by 10%	31 Mar 12	XXX	
Cargo			
Net profit of 8% of Cargo Revenue	Per Annum	XXX	
Air Chefs			
Net profit of 5% of Air Chefs Revenue	Per Annum	XXX	
SAA Technical			
Net profit of 4.5% of SAAT Revenue	Per Annum	XXX	
Hedging Policy			
Hedging effectiveness	Per Annum	XXX	
SAA Debt : Equity Ratio			
Improving Debt : Equity Ratio to 83% Debt	31 Mar 13	XXX	

SAA, SA Express & Airlink Operational Interfaces

SA Express Operational Interfaces

- SA Express is Government owned
- Franchise relationship (franchise fee = R9 per flown passenger)
- Common use of code

SAA supports SAX with the following ancillary services

Revenue Accounting	It Infrastructure	Distribution e.g. Call centers, Scheduling and Distribution	Voyager	Cargo	Airport Handling	Fuel Procurement	Training	Other associated contracts (lounge usage, medical services)

Future Cooperation

Johannesburg as a hub

- Parties to support the feed and de-feed to strengthen JNB as a hub

SA Express

- Domestic markets nearing saturation and not representing growth opportunities for SAA implying closer co-operation with SAX. Example: SA operates peak hours and SAX off-peak with smaller gauge aircraft .
- Closer Cooperation with SAX
  - Intra-Africa growth joint opportunities
  - Use of Collective Fleet
  - Sharing of resources
  - Creating better opportunities for the consumer
  - Parties to ensure compliance with Competitions Act

Airlink

- Continued cooperation provided we are not in contravention of the Competition Act

Airlink Operational Interfaces

- Airlink is privately owned , SAA has less than 3% shareholding
- Franchise relationship (franchise fee = 0.5 % of Gross Passenger Revenue)
- Common use of code

SAA supports Airlink with the following ancillary services

Revenue Accounting	Cadet Pilot Training	Distribution e.g. Call centers, Scheduling and Distribution	Voyager Currently under review	IT Infrastructure	Training	Other associated contracts (lounge usage, medical services)

SOUTH AFRICAN AIRWAYS
TECHNICAL

Gigaba 'ambushed' by SAA resignations

"C1"

Posted on October 1, 2012 by BizcoBC

Johannesburg – The resignation of South African Airways (SAA) board chairperson Cheryl Carolus and seven other board members was "sort of an ambush", says a spokesperson for Public Enterprises Minister Malusi Gigaba.

Andile Ntingi & Mmanaledi Mataboge | CITY PRESS

Wrangling between the board and Gigaba's department over money led to a two-month delay in the publication of the airline's financial statements. Matters came to a head after Gigaba wrote to parliamentary speaker Max Sisulu this week to inform him that SAA would not be able to table its 2011/12 annual report before the end of September. Gigaba told Sisulu the auditors could not sign off SAA's financial statements before the airline's pressing financial challenges were resolved. An enraged Carolus has criticised the department for "casting aspersions" on her board, particularly on the issue of submitting financial statements on time. "The comments that the financial statements were not submitted are untruthful and I will not allow my reputation, and that of the board and management, to be called into question," Carolus told City Press. She said skyrocketing fuel prices had put SAA under strain and the airline needed a R2bn overdraft facility in the event that oil prices went up again. She said the auditors wanted this facility in place to avoid giving SAA a qualified audit.

A commercial bank agreed to make this facility available, provided there was a letter of guarantee from the government. Carolus said the department advised SAA not to take the bank overdraft because interest repayments on it would be exorbitant. Instead, a state cash injection into SAA's balance sheet was seen as the best option and Gigaba's department promised to request the money from the Treasury, Carolus said. "We were waiting for the government processes on the matter.

These failed us." But Gigaba's spokesperson Mayihlome Tshwete said Cabinet had approved new board members on 19 September and somehow the list was leaked. Tshwete said Gigaba had apologised to the outgoing board for the leak and then had "several engagements" with Carolus to plan a smooth handover to the new board. He said Carolus had spoken to Gigaba extensively in the days leading up to the resignations and had never mentioned a lack of support. It is in this context he says the events felt like "sort of an ambush". "This was a very sinister and malicious thing, it's very unfortunate. "Rotations of boards are quite common but the level of unprofessionalism that we saw from those board members is shocking," Tshwete said.

City Press | SME South Africa

More support for SAA ruled out

"C2"

Daily News · 20 Sep 2012

PUBLIC Enterprises Minister Malusi Gigaba has ruled out further financial support for South African Airways (SAA) until the airline comes up with a long-term strategic plan, Business Day has reported.

Gigaba told the Cape Town Press Club yesterday that the government had not yet taken a decision on SAA's request earlier this year for a cash injection of R4 billion to R6bn to recapitalise the carrier.

He said the issue was still under discussion, but so far neither he nor Finance Minister Pravin Gordhan was con- vinced that SAA had devised a viable long-term plan.

"Up until now there has been no vision. There have been a number of so-called strategies that were not implemented," Business Day Live website quoted the minister as saying.

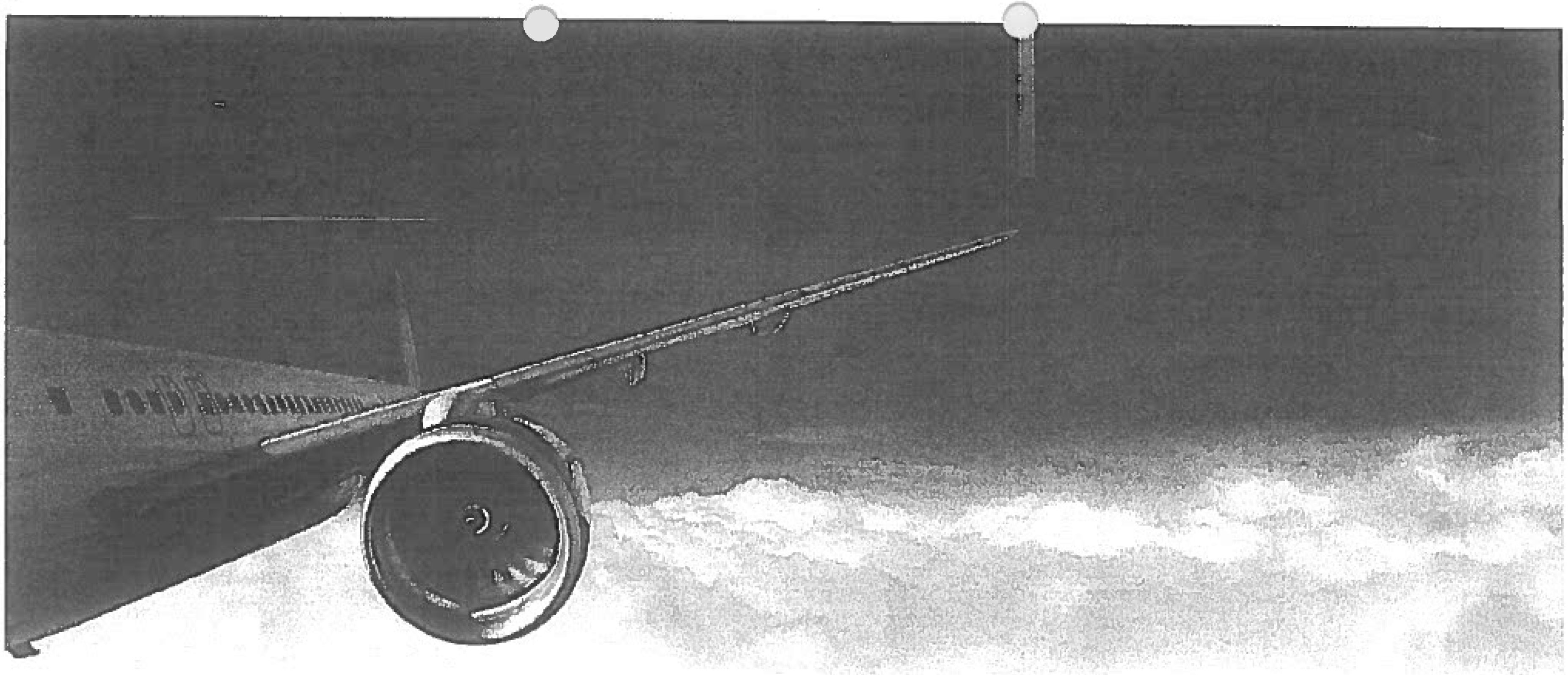
Gigaba also told reporters the perks attached to the pay packages of executives at stateowned enterprises could not be allowed to escalate.

Terming the remuneration of top executives "extravagant", Gigaba said he was certain it would be capped in future to prevent the wealth gap widening.

Returning to SAA, he said the airline's long-term strategy would have to include a firm commitment to cutting costs and incentives to employees such as free flight tickets.

"The country cannot continue to sacrifice for SAA when the airline does not sacrifice for the country."

SAA has defended its request for more money from the state by saying several cash injections in recent years were not enough to set it on a sound debt-to-equity ratio. – Sapa



SAA Capitalisation Requirements

SOUTH AFRICAN AIRWAY
A STAR ALLIANCE MEMBER

"D"

SAA Capitalisation Requirements

1. Context
2. Background
3. Main areas of concern
4. Proposed Solutions

ANNEXURE "8"

SOUTH AFRICAN AIRWAYS
A STAR ALLIANCE MEMBER

CONTEXT

- The SAA Chairperson wrote to the Minister on 14 December 2011 to outline its Growth Strategy & Capitalisation Requirements.
- This was directly linked to a presentation made to the Ministry, by SAA, on its African Aviation Strategy in a joint meeting with SA Express on 14 November 2011.
- Subsequent to that Joint-Meeting, the Minister convened a Strategic Ministerial Aviation Committee to consider the key issues raised including the Capitalisation Requirements for SAA to implement its Growth Strategy.
- This presentation summarises the key issues raised with the Minister in the letter of 14 December, which are being further developed through the Strategic Ministerial Aviation Committee.

2 BACKGROUND

At its 30 November 2011 meeting, the SAA Board considered:

1. SAA's achievements.
2. The Group's competitive position, including the known and projected growth rates of its competitors.
3. Main areas of concern inhibiting SAA's Growth Strategy.

2 BACKGROUND

SAA has <u>substantially achieved</u> its Mandate and Strategic Objectives, agreed in the Shareholder's Compact. Under the current Board and Management, SAA's achievements include:

- Stabilisation and enhancement of the Group's businesses, despite difficult trading conditions;
- Improvement of the capital base by R2.3bn;
- Keeping non-fuel costs under control, including adopting a structured approach to hedging;
- Commencement of four new routes in Africa (and shortly Beijing), without additions to fleet, through increased aircraft utilisation;
- Improving both ground and on-board product, such as airport lounges, in-flight entertainment and food & beverages;
- Launching a major customer service improvement programme;
- Stabilised a range of staffing issues, such eliminating the use of labour brokers;
- Resolution of most legacy competition issues; and
- Substantially increasing the maturity level of the Governance Framework.

2 BACKGROUND

The Board also considered the Group's competitive position and the known and projected growth rates of its competitors.

- As per the presentation on 14 November, **SAA has actually reduced scale by 8% (in the last five years)**, while its major competitors such as: Ethiopian Airlines (102%); Kenya Airways (34%); Egypt Air (77%); and Emirates (79%) have all grown materially and are continually investing in new product.

- **SAA's loss of scale relativity is a serious strategic threat to its immediate and long term future.** SAA must grow or be increasingly marginalised in its end of hemisphere position and it must grow to deliver its Mandate and Strategic Objectives and support State policy objectives, such as the Airlift Strategy and NGP.

- Target growth markets are both new and existing African routes and new east-west markets in the Americas and Asia, **which will support South Africa's strategic trade, tourism & economic development objectives**.

2 BACKGROUND

The Board then confirmed three main areas of concern inhibiting SAA's Growth Strategy:

1. Weak Balance Sheet.

2. Operational profitability.

3. Cash Flow position.

2 BACKGROUND

The Board then concluded that:

1. SAA's Growth Strategy requires it to be properly capitalised to meet the strong competitive threat from major African and Middle East airlines.

2. Short-term capital injection & long term capitalisation solutions must be considered.

3. The business is undercapitalised to invest in the required additional fleet and product development to grow and compete and (due to the weak economic environment and high fuel prices) is unable to increase profitability as quickly as intended. Other international and local airlines are also feeling this effect and are being recapitalised.

MAIN AREAS OF CONCERN

Weak Balance Sheet

- SAA does not have an acceptable aviation industry capital base.
- The current debt to equity ratio is 254% - industry average ≈78%.
- Problematic for raising external financing for Airbus fleet replacement transaction.
- Balance Sheet will continue to weaken in current economic climate and continuing high fuel costs.
- Balance Sheet lacks critical mass to absorb losses during cyclical downturns.

SOUTH AFRICAN AIRWAYS
A STAR ALLIANCE MEMBER

MAIN AREAS OF CONCERN

Operational Profitability

- SAA currently suffering losses at an operational level.
- Recent International Air Transport Association forecasts conclude that the outlook for 2012 remains weak.
- Comair reporting trading losses
- 70% increase in ACSA charges, high fuel prices and weakening Rand.
- Airlines operate at very low margins: 1 – 3%. High sensitivity to fuel prices, business confidence and any external shocks (e.g. volcanic ash clouds).
- Airlines need sufficiently strong Balance Sheets and enough cash reserves to effectively withstand a prolonged adverse environment.

SOUTH AFRICAN AIRWAYS
A STAR ALLIANCE MEMBER

MAIN AREAS OF CONCERN

Cash Flow Position

- SAA's current cash flow is under severe strain – high fuel price and weak Rand.
- Insufficient cash to fund fleet replacement programme or product development, which negatively impacts SAA's competitive position.
- Access to banking facilities are negatively impacted by SAA's weak Balance Sheet.
- National Treasury's refusal to use part of the going concern guarantee for ATL guarantee, reduced existing banking facilities by R437m.
- Insufficient cash resources impedes SAA's ability to employ a prudent hedging programme.

To help alleviate the current cash flow position, SAA is currently engaging with PIC and other banks to refinance aircraft PDPs.

SOUTH AFRICAN AIRWAYS
A STAR ALLIANCE MEMBER

4 PROPOSED SOLUTION

Short Term Solution (by 31 March 2012) considered by the SAA Board

- Conversion of R1.3bn subordinated loan into capital ***by 2011-12 year end***. This will strengthen the Balance Sheet - no cash flow impact, except for saving of R100m interest payment, and
- Conversion of the R1.6bn going concern guarantee into a capital guarantee **by 2011-12 year end**. This will strengthen the Balance Sheet - no cash flow impact.

The timing of these proposed actions is extremely important, as the strengthened Balance Sheet would already manifest in the 2011-12 Annual Report and be used by potential financiers to assess SAA's financial strength.

SOUTH AFRICAN AIRWAYS
A STAR ALLIANCE MEMBER

4 PROPOSED SOLUTION

Medium-term Solution (2012-2014) considered by the SAA Board

Conversion of the R1.6bn capital guarantee into cash in the 2012-13 financial year. This will strengthen the Balance Sheet and provide required operating cash flow, **and one of the following:**

- Further capital injection by the Shareholder of R3.3bn in 2012-13 and another capital injection of R1.5bn by 2013-2014, totaling R4.7bn. This will strengthen the Balance Sheet and provide required operating cash flow to: strengthen the Balance Sheet (reducing Debt to Equity ration to 70-80%); and then invest in the required fleet and product improvements to more effectively deliver SAA's Mandate and Strategic Objectives.

Alternatively

- Sourcing a Strategic Equity Partner: which would both strengthen the Balance Sheet and provide operating cash flow.

SOUTH AFRICAN AIRWAYS
A STAR ALLIANCE MEMBER

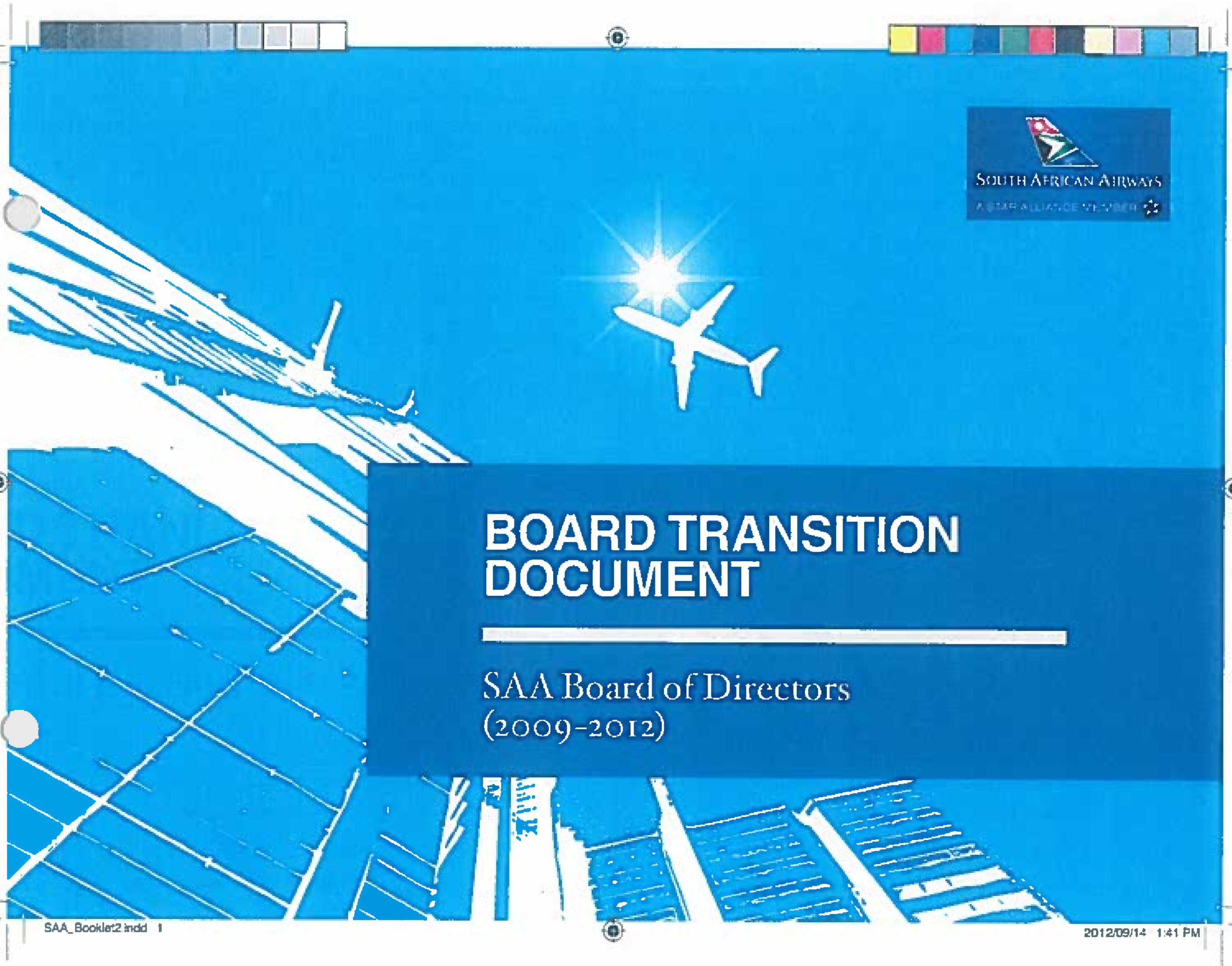
SAA Capitalisation Requirements

Discussion

South African Airways

A Star Alliance Member

"E"


South African Airways
A Star Alliance Member
BOARD TRANSITION DOCUMENT
SAA Board of Directors
(2009-2012)
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Acronyms used in this report

B-BBEE	Broad-based black economic empowerment
BRICS	Brazil, Russia, India, China, South Africa
CEO	Chief executive officer
IT	Information technology
RPK	Revenue passenger kilometres
RSK	Revenue per available seat kilometre
PFMA	Public Finance Management Act
SAA	South African Airways
SADC	Southern African Development Community
SAAT	South African Airways Technical
SATC	South African Travel Centre

CONTENTS

1. INTRODUCTION

The current Board of Directors of South African Airways (SAA) was appointed in September 2009. Its term will come to an end in September 2012. This transition report, which highlights progress made and challenges faced over the past three years, is intended to help ensure leadership continuity as the new Board takes over. Managing rapid changes associated with Board-level transitions and management shifts is key to safeguarding the company's strategic priorities and, ultimately, the public interest.

This document, which is not mandatory, describes how the Board worked to realise its mandate and sets out the core challenges facing the company over the medium term. The views expressed here are drawn from Board members' experiences, insights and collective lessons learnt. The report is not designed to replace the Corporate Plan, which was developed in close cooperation between the airline and the Department of Public Enterprises. Nor is it intended to duplicate operational information typically covered in an annual report. Instead, the document sets out strategic markers to assist the incoming Board and provides observations that can inform decisions by the South African government, which owns SAA in its entirety.

SAA plays a unique role in South Africa. It is a strategic asset that enables the state to contribute to domestic, regional and international air services, which underpin a modern economy. It also functions as an enabler of local and regional economic growth. SAA connects South Africa to 31 cities in 23 countries. This opens up export markets, lowers transport costs and increases productivity, supporting job creation.

A functional, well-run airline that transports people and goods safely, reliably and efficiently is a prerequisite for growing the South African economy and realising the country's global aspirations.

SAA functions in an extremely competitive international environment, at great distance from many major markets. These trading conditions are reflected in the decision of several major carriers to exit South Africa in recent years. Such considerations underline the reality that the country's needs cannot be served reliably by commercial carriers alone. South Africa needs a strong and successful national airline that contributes to the economic growth of the republic.

Until 1994, SAA flew to two international destinations. With the advent of democracy, the carrier rapidly expanded its network, but this growth has not been matched by a commensurate increase in the level of capitalisation. SAA must be run along commercial lines, borrowing on the strength of its balance sheet. This requires an adequate capital base and, from time to time, capital injections that enable the carrier to realise its broader developmental objectives as defined by the shareholder, allowing the company to borrow for fleet expansion. Today, SAA needs a capital structure proportionate to its strategic economic role.

In 2009, SAA was, in many respects, an airline in crisis. Section 2 of this report reviews the steps taken to stabilise the business and areas requiring continued focus. Section 3 takes a broad view of the strategic challenges facing the carrier. Information concerning the Board and subsidiary structure, and current litigation, is provided in appendices.

2. STABILISING THE BUSINESS

2.1 THE SAA CHALLENGE IN CONTEXT

When a new Board was appointed in September 2009, SAA had experienced a series of major governance failures and its reputation was in distress. The main concerns were as follows:

- **Leadership continuity.** Only one non-executive director had been retained from the previous Board. The fact that the chief executive officer (CEO) position was vacant added to the complexity of the Board-level transition. Normally, one-third of the Board rotates to ensure continuity and limit loss of institutional memory.
- **Fragmented top management and lack of strategic focus.** The acting CEO and executive leadership team, some of whom were also working in an acting capacity, had limited top management experience, and were not positioned to develop a strategy that would allow SAA to deliver its mandate and strategic objectives. In practice, there had been a radical disruption of top management every three to five years.
- **Corporate governance concerns.** A KPMG investigation commissioned by the previous Board identified certain acts of mismanagement and corporate governance failures under the leadership of the previous CEO.
- **Competition issues.** SAA faced a range of civil and criminal charges in South Africa and major international jurisdictions related to alleged price fixing and other anticompetitive behaviour. The severity, scope and potential costs of these cases, and their implications for future operations, were substantial.
- **Poor employee morale and labour relations.** Employee morale had been negatively affected by the broader malaise within the group. Relations between labour and management were generally antagonistic.

- **Weak balance sheet.** SAA's balance sheet has historically been weak. The level of capitalisation had failed to keep up with the airline's expanding mandate.
- **Procurement concerns.** There had been major failures in procurement systems and a lack of adherence to the Public Finance Management Act (PFMA) (1999).
- **Unfocused mandate.** The role and mandate of the Board had become blurred.

Despite these factors, SAA remained a valuable national asset. The group had kept its planes flying. Its safety record was exemplary, and it continued to receive awards and other forms of recognition within the airline industry. The carrier was served by a dedicated middle-management team that had worked for the company for many years. The SAA brand had remained fairly strong in the market, despite various setbacks.

In short, SAA was – and still is – a strategic asset that can play a vital role in promoting economic growth, trade and investment in South Africa and the region. To address the challenges facing SAA, the new Board set out to rebuild governance and executive capability, initiating the search for a new CEO and developing a strategy that would stabilise the business and create a stronger platform on which to build.

2.2 IMPROVING GOVERNANCE AND PLANNING

The new Board encountered several challenges related to governance and planning.

- There were 10 competition-related matters for which SAA had contingent liability exposure. These included price-fixing investigations in South Africa, Australia, the United States and the European Union. In aggregate, SAA faced enormous potential liability for these claims.
- The role and mandate of the Board vis-à-vis both management and the shareholder was unfocused, with consequences for the development of strategy.
- External auditors had identified procurement concerns that represented breaches of the PFMA.

These issues included contracts being extended without proper authorisation, contracts not signed, goods and services not properly procured, weak controls, outdated procedures, and inadequate training and contract management.

- Record-keeping, both at Board and operational level, was poor and inadequately resourced for a company of SAA's complexity.

The new Board immediately began to address these challenges. The first step was to initiate the search for a CEO and to strengthen the executive management team. This process is discussed on page 17.

Following legal review of the KPMG report, the Board was advised that it had a fiduciary duty to act. It did so by instituting civil claims and laying criminal charges against the former CEO, Mr Khaya Ngqula. Four civil claims and four criminal claims are currently pending against him. A brief summary of this litigation is provided in Appendix D.

The Board and management established the PFMA Forum – an internal mechanism to improve governance. This body identifies potential requests for PFMA exemptions required by the nature of the business, avoiding instances of irregular expenditure.

The Board has also resolved most litigation and operational matters related to competition. All but three of the 10 competition matters facing the group in 2009 have been resolved. Operational competition concerns have also been addressed, resulting, for example, in central procurement between SAA and Mango that leverages economies of scale, while ensuring the arm's length conditionality imposed by the Competition Commission of South Africa. The result of these endeavours is a settlement agreement with the Competition Commission to the effect that SAA starts with a clean slate with regard to any matters that arose prior to the agreement. The former chair of the Competition Tribunal, Professor David Lewis, was appointed as a non-executive director to provide additional expertise in this area.

The roles of the Board, the shareholder and management had to be clarified. The Board has worked towards more effective coordination of the mandate with the shareholder. The shareholder compact, strategy development, corporate plan, budget approvals and annual general meetings have been sequenced and streamlined. The Board has taken its PFMA and fiduciary responsibilities with the utmost seriousness, working to ensure that SAA is in compliance with the revised Code of Governance Principles of South Africa (King III) and taking steps to bring the group in line with the Companies Act (2008).

The Board and the new executive team began to develop a new strategy for the group in July 2010. The Board finalised the strategy at an October 2010 workshop attended by the Minister of Public Enterprises and the department's aviation team, along with top management. At its November 2010 meeting, the Board formally approved the strategy, which was translated into the 2011-14 Corporate Plan submitted to the Department of Public Enterprises and the National Treasury in February 2011. This strategy took a holistic view of the group, how to grow the business and ensure it focused on its mandate. SAA's current strategy, updated for 2012-15, is summarised on page 22.

The Project Management Office, established during the tenure of the new Board and executive management team, plays a central role in ensuring that group strategy makes the leap from idea to implementation.

The Board has also focused on the governance and performance of SAA's subsidiaries – Mango, Air Chefs, SAA Technical (SAAT) and South African Travel Centre (SATC) (see Appendix A). Capable management teams have been put in place, with improved accountability, processes and procedures.

SAA has taken steps to improve record-keeping at Board and operational level. The group places a greater focus on communicating with its stakeholders – the shareholder, staff, customers, suppliers and communities. The company has entrenched environmental, social and governance commitments. And it has improved its broad-based black economic empowerment (B-BBEE) scores in nearly all categories, including procurement from small and medium-sized businesses, and those owned by women.

Over the period ahead, challenges include:

- Resolving the outstanding competition issues, building on the premise that anti-competitive behaviour is part of SAA's past, not its future.
- Further steps to corporatise SAA and bring it into compliance with the Companies Act. State-owned entities need to be run along proper business lines, including maintaining appropriate boundaries between the shareholder, the Board and management. The Board must remain sensitive to shareholder concerns while asserting its responsibilities in line with King III and the Companies Act. The Board appoints management, but it cannot manage. The Board owns and guides strategic priorities and direction, which management then executes.
- Regular benchmarking of employee numbers, aircraft, revenue, profitability and other indicators against other national carriers, perhaps on a quarterly basis, would help demonstrate to the shareholder and the public that SAA is serious about efficiency and value for money. SAA conducts benchmarking, but this needs to become a more regular feature of the business.

2.3 FINANCIAL POSITIONING

SAA's balance sheet was weak in 2009 and the carrier's financial position has continued to atrophy, despite a range of operational improvements over the past three years.

The key factors underlying SAA's financial position are:

- Historic and ongoing undercapitalisation.
- The shape of the global airline sector – a highly competitive, asset-intense industry

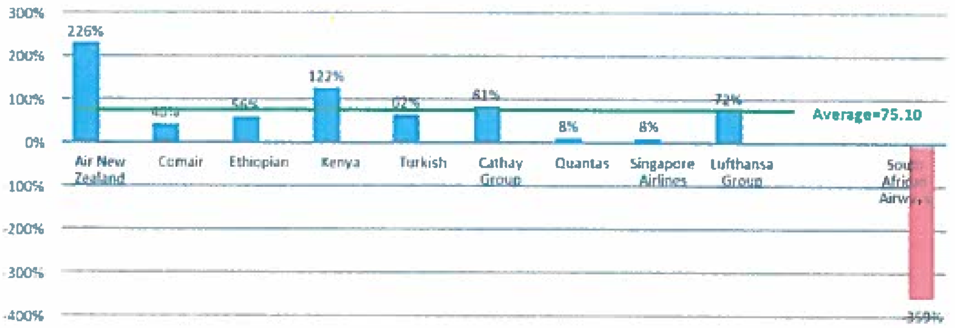
with razor-thin margins, susceptible to currency and fuel-price volatility.

- SAA's geographical position as an "end-of-hemisphere" carrier.
- An ageing fleet that is fuel-inefficient and lacks sufficient flexibility to meet the demands of SAA's passenger market.

Balance sheet weakness

The SAA Group's balance sheet is weak and cannot be rebuilt from retained earnings, as envisaged in 2009 after the airline's cost-cutting restructuring. SAA remains inadequately capitalised, with a current debt-to-equity ratio of -359%. As a result, the group cannot adequately support delivery of the growth strategy at the centre of the 2012-15 Corporate Plan, or navigate cyclical adverse trading conditions.

Figure 1: Debt:equity ratio comparison of selected carriers, 2011/12



The weakness of the balance sheet and debt-to-equity ratio undermines SAA's ability to embark on a borrowing programme that would allow the group to make the necessary upgrades and additions to its fleet without the support of the shareholder.

Figure 2 provides trend information on SAA's capital and reserves, and its operating profit. Note that if fuel prices had stayed at the same level from 2010/11 to 2011/12, SAA would have realised an operating profit in the most recent financial year.

Global industry trends

The global airline landscape is characterised by the following:

- Sharply higher fuel prices over a sustained period.
- Global growth in passenger demand has been relatively sluggish since 2008 due to poor economic growth in several regions. Most recent growth has been in economy-class travel, with premium growth flattening out in response to weaker economic conditions. In SAA's case, however, there is strong demand for premium travel, with far weaker demand in economy class.
- A need for fuel-efficient aircraft to serve specific markets.
- Rising charges and taxes, including tourism levies, airport and environmental taxes, and fees for navigation services and weather forecasting.
- Increasing competition, particularly from Middle Eastern airlines that enjoy large government subsidies in the form of preferential fuel prices and infrastructure.
- A need to review business models and the cost structure of services traditionally included in ticket prices, such as meals and luggage transport.

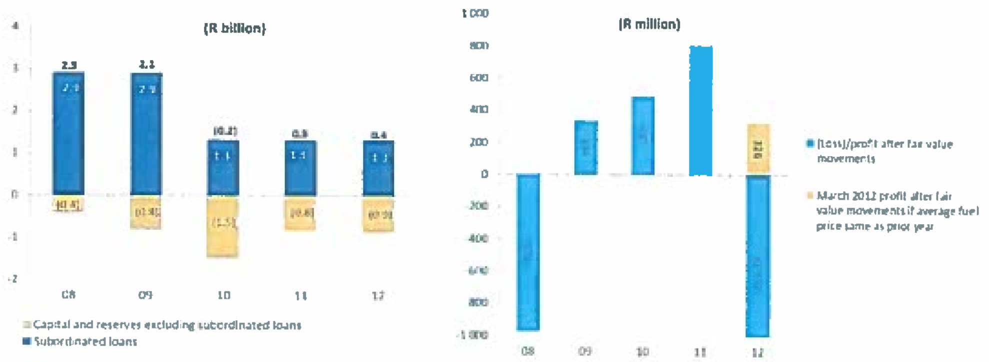
Rising fuel costs have an enormous impact on SAA's bottom line. Fuel costs, which fluctuate with the price of crude oil, have increased from 24% of SAA's total expenses in 2009/10 to 34% in 2011/12. SAA's fuel bill rose to R8.3 billion in 2011/12 – an increase of R2.2 billion from the prior year.

The problem is exacerbated by the airline's ageing, fuel-inefficient fleet. SAA's long-range aircraft have four engines, whereas new-generation aircraft only have two engines and use fuel more efficiently.

SAA faces a geographic disadvantage because it is an "end-of-hemisphere" carrier (see Figure 4 on page 13). Such airlines frequently need to stop at a mid-hemisphere airport. On ultra-long haul routes, this is often a fuel stop without the right to set down or pick up passengers, so the carrier must complete the trip with the same aircraft and unit cost.

In contrast, airlines based in mid-hemisphere hubs that have the right aircraft can fly non-stop to almost any major airport in the world. Carriers such

Figure 2: Capital and reserves trend, and operating profit trend (2008–2012)



as Emirates, Qatar Airways and Singapore Airlines can service the same route from their home hubs with two different-sized aircraft, allowing them to tailor unit costs. End-of-hemisphere carriers will be increasingly marginalised on long-haul routes if they do not act decisively.

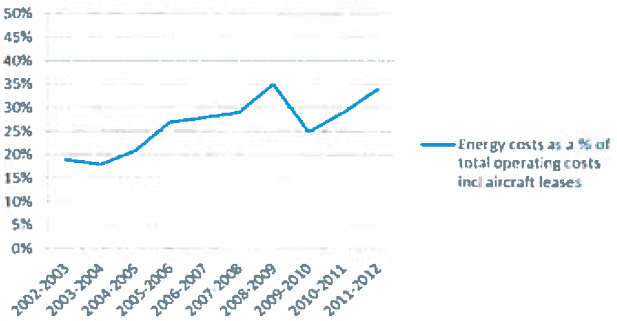
Stabilising the financial position

The Board, working with top management, has taken steps to stabilise the financial position. To improve revenue SAA has focused on appropriate fleet renewal and route profitability, building on the Johannesburg hub. Additional revenue initiatives include:

- Enhancing data analysis, focusing on improving sales in higher-yield channels and lowering operating costs.
- Introducing new revenue streams such as holiday packages, meeting and conference initiatives, and alternative payment outlets.
- Realigning existing programmes by revisiting general sales agent contracts, and reviewing all code share contracts and travel agency incentives.

A centralised cost-containment programme has been established to reduce non-fuel unit costs by 20% by 2014. External costs, however, will remain a central challenge. These "uncontrollable" costs include fuel prices and regulated charges, such as air traffic navigation and airport fees, which are also affected by currency volatility.

Figure 3: SAA fuel costs as percentage of total expenses, 2002/03-2011/12



SAA's major hedging risk exposures are in fuel and currency. Hedging practices have been strengthened in recent years. The group maintains a conservative position, hedging one year forward on a rolling basis. These positions are monitored under the financial risk management framework and are reported regularly to the Board. No major hedging losses have been incurred since 2008/09.

Expenditure across the business has been placed under better control through continuous incremental improvements. The Board has also worked to reduce

Figure 4: Hemisphere market analysis

legal costs. A legal tracking system has been put in place to improve transparency and retention of advisory opinions and agreements.

Above all, SAA needs to ensure sufficient levels of liquidity and solvency. This is especially important given the airline industry's exceptionally tight margins, influenced by exogenous factors such as currency volatility and high fuel prices.

Restructuring and improving the balance sheet will remain a key focus over the next several years, supporting growth in SAA's key regional markets. Alongside continued cost-containment and revenue-raising initiatives, this can only be achieved through adequate capitalisation, an appropriate borrowing programme for aircraft acquisition, and refinancing rollovers and new debt at favourable market pricing.

A properly capitalised SAA Group would use its strong balance sheet to upgrade the fleet, acquiring additional aircraft to address SAA's loss of scale since 2006. The fleet renewal programme would enable product development, including a premium-economy section to provide greater revenue and return on capital invested.

Currency exchange volatility makes it important for the airline to diversify its sources of funding in future. Financing raised and secured by assets will remove the need for a government guarantee, reducing shareholder exposure.

The Board has worked to bring the capitalisation issue to the shareholder's attention to improve the structure of the balance sheet. Capitalisation was discussed at a November 2011 workshop. The Minister of Public Enterprises, who attended the meeting, defined the capitalisation challenge as a central focus for the Strategic Ministerial Aviation Committee, which aims to develop a comprehensive national aviation plan (a "whole of state" approach). Discussions on capitalisation with the shareholder representative and the National Treasury are continuing.

TOWARDS FLEET RENEWAL

SAA's last major fleet overhaul was in 2003. The current fleet does not meet SAA's operational needs nor can it fulfil growth expectations. This has consequences for profits, particularly on long-haul routes.

The Board has proposed investing R2 billion in the fleet, introducing a premium economy class, extending the business class cabin, and introducing new seats, in-flight entertainment and other products. This investment needs to take place as soon as possible to improve medium- to long-term profitability. The fleet renewal will support a 10-year international network plan, which aims to expand the east-west corridor, connect major global flows to Africa via Johannesburg and fly non-stop on all international routes. The plan covers 14 major cities, including Mumbai, Buenos Aires, São Paulo, Hong Kong, Beijing and Lagos.

SAA has 24 wide-body aircraft, of which seven are owned and 17 are leased. To achieve its plan, SAA would need to increase its fleet to 33 aircraft, with a focus on smaller, more fuel-efficient twin-engine aircraft. Over the next six years, the fleet renewal plan is centred on extending existing leases, and leasing six new A350s between 2016 and 2018. If a decision is taken today, leased aircraft would only become available from 2016 onwards. A commitment has to be made immediately to secure these in-demand aircraft.

2.4 SHARPENING OPERATIONAL EFFICIENCY

Over the past three years, the Board has focused on improving network efficiency, building on the strength of Johannesburg as an international hub, and focusing on the African market – an area of great potential where SAA exercises competitive advantage.

A major operational challenge is the age and flexibility of the fleet (see page 15). SAA's domestic operations are profitable, but its international operations cancel out these profits because the carrier has the wrong mix of aircraft. The A340 wide-body fleet, for example, is larger than required to meet demand on many routes.

The Board and management have conducted an extensive assessment of the route network and profitability. Unprofitable routes have been set aside. Seven new African routes have been introduced over the past 12 months: Abidjan, Brazzaville, Bujumbura, Cotonou, Kigali, Ndola and Pointe Noire. SAA has also successfully established new routes into Brazil, China and India, in line with South Africa's strategic outlook and expanded links within the BRICS grouping.

Crucially, the expansion of the route network has been achieved using the same number of aircraft, improving efficiency and realising cost savings. SAA has also focused on improving revenue per available seat kilometre (RSK). For example, on the Durban-Johannesburg route, SAA is now using smaller aircraft, without reducing frequency. At operational level, productivity enhancements have registered improvements and are beginning to reduce costs.

2.5 BOLSTERING INTERNAL CONTROLS

By 2009, SAA's internal controls had failed in several areas. This was highlighted by apparent breaches of the PFMA associated with procurement system failures. The scope of irregularities identified suggested that there may have been deficiencies in external auditing of the group, which was being conducted by two global audit firms. Several initiatives have seen SAA register progress in strengthening its internal controls, risk management and governance. SAA is now compliant with all audit requirements and is implementing a combined assurance model in line with King III. Late in 2011, SAA began establishing its own internal audit capability with the appointment of a chief audit officer. Previously, the internal audit function was entirely outsourced to Ernst & Young. The chief audit officer has a dual reporting line to the SAA Board Audit Committee chairperson and the CEO.

The Board established the Procurement and Tender Processes Committee in early 2010 to overhaul the procurement function and align it with relevant laws and regulations, and with best practice. The delegation of authority dealing with procurement has been aligned for greater efficiency. A chief procurement officer with a sound background in the field has been appointed and reports directly to the CEO. A Bid Adjudication Committee was formed to act as gatekeeper for major procurement activities.

Further work is required to resolve inconsistent application of procurement policy, reinforce data integrity on the enterprise resource planning system and increase the B-BBEE contribution by small, medium and micro enterprises, and those owned by women. SAA also needs to reduce the costs of goods and services procured.

Continued focus is required to ensure that there is no deterioration in the assessment of technical matters related to risk management, particularly given SAA's history of hedging losses and the merger of two committees (Audit and Financial Risk Investment) into the Audit Committee. In addition, SAA's commitment to transformative procurement practices should not result in inordinate price increases, or a reduction in the quality of goods and services obtained.

2.6 BUILDING HUMAN RESOURCES

In September 2009 much of SAA's top management team was serving in an acting capacity, and some lacked sufficient top-level experience to provide strategic leadership and effective governance. An acting CEO had been appointed in February 2009 after the departure of the previous CEO due to widespread governance failures. The immediate task facing the Board was to identify and appoint a permanent CEO. SAA required an experienced executive, familiar with both commercial aviation and SAA's core African markets, who could turn around an ailing business. The Board worked with the shareholder during the search process. Ms Siza Mzimela became the CEO on 1 April 2010. She has a strong record of achievement across all elements of the aviation business at both SAA and SA Express, where she served as CEO.

With the Board's support, the CEO started to rebuild the executive team and develop a new corporate strategy focusing on growth. Key appointments were made in the first six months of the CEO's tenure in Strategy, Planning & Project Management; Human Resources; Commercial; Cargo; SAAT; Air Chefs; and Legal, Risk & Compliance. In 2011, the Board appointed a new chief financial officer, which has contributed to improved integrity in financial reporting. No member of the executive team is serving in an acting capacity.

SAA also brought back people with many years of experience who had left the carrier, and promoted managers from within SAA's ranks.

HEALTH, SECURITY, SAFETY AND THE ENVIRONMENT

In terms of flight safety, SAA remains a leader on the African continent. SAA flight data recorders monitor a range of indicators. When any measure goes outside a specified limit, it triggers an "event". Such events fell to a historic low of 56 during 2011 – a ratio of 1.092 per 1 000 sectors. This is the result of a sustained focus on safety.

While "events" are at a low, there is no room for complacency. Future strategy will require an integrated approach to safety that includes security, health and the environment. SAA must continue to keep a sharp focus on safety, including well-trained pilots, timely and effective maintenance and proper navigation control systems.

In recent years SAA has given priority to making the transition from an industrial relations culture – which often results in confrontations between management and labour – to one that emphasises human development. A performance management system focused on contribution, growth and development has been successfully implemented. A staff recognition programme allows employees to nominate their colleagues for awards in categories such as safety, performance excellence and customer service. This culminates in an annual "Night of the Stars" awards event hosted by top management.

The Board has paid careful attention to effectively working with the trade unions representing SAA employees. Strikes and confrontations have been avoided. A more transparent, progressive remuneration structure made significant steps toward a collaborative approach between management and labour, as reflected during the most recent round of wage negotiations.

The Board has also focused on SAA's contribution to government's New Growth Path, implementing job training in three categories (apprentices, interns and cadet pilots) and creating jobs directly. In total, 674 people were trained or hired in these categories during 2011/12. These initiatives will be strengthened over the next several years.

The following areas require continued focus over the medium term:

- **Collective bargaining.** SAA needs to address the legacy of evergreen contracts – wage agreements that are continually and automatically renewed – between labour and management. These contracts are uncompetitive and impose inherent cost risks to the business. SAA will continue to honour existing agreements, but should try to reduce the legacy commitment over time through negotiations.
- **Managerial capability.** SAA needs to extend management accountability beyond the CEO and the leadership team. This should include establishing key chains of accountability, and people development and leadership on all levels.

- **Succession planning and talent management.** The discontinuities that result from leadership changes can have a major impact on performance. SAA has set up succession plans for top management. This requires continued focus, with success measured by the rate at which key positions are filled internally.
- **Diversity and inclusion.** Key appointments over the past two years reflect SAA's progress towards a representative workforce and implementation of its employment equity plan. The challenge is to go beyond representation, translating diversity into a driver of greater performance and celebrating what each employee brings to the team.

Realising these goals will help SAA to develop a culture of excellence.

2.7 CUSTOMER SERVICE AND THE SAA BRAND

In the ultra-competitive airline industry, customers do not just buy a ticket, they buy an experience. Improving customer service will remain a strategic priority for SAA. While there is no funding for new products, SAA has focused on improving in-flight entertainment and airline meals, especially in business class. All airports now have priority boarding systems in place and customers can check in using their cellphones.

A new customer-service training programme has been introduced for all SAA employees, including top management. There will be a need for continued leadership focus to ensure that human resources programmes can attract the calibre of staff needed to bring about a culture of customer service.

3. STRATEGIC CHALLENGES

This section discusses the long-term challenges facing the Board and the shareholder.

3.1 COMPETITION AND SCALE

SAA operates in a highly competitive global market in which airlines are either growing or collapsing. A series of international and domestic airline consolidations, in combination with aggressive growth strategies by existing and emerging carriers, has reduced SAA's relative scale and market share, particularly over the past five years.

SAA has to compete against airlines with greater network options, superior product and a higher hemisphere position than Johannesburg, typically resulting in less travelling time to African destinations. This is changing traffic flows and placing increased pressure on SAA revenues and yield.

Table 1 on page 23 shows SAA's scale ranking by passengers, capacity changes over five years and revenue passenger kilometres (RPKs). The latter measure, which reflects demand, is the standard measure of revenue-earning seat occupancy.

SAA's loss of scale is primarily due to the retirement of four wide-body Boeing 747-400s between 2008 and 2010. Over the same period, SAA's main African competitors (Ethiopian Airlines, Egypt Air and Kenya Airways) have significantly increased capacity.

Viewed in isolation, the retirement of the four jumbo jets was a sound decision based on their high operating cost and the need to conserve cash during SAA's restructuring. However, this capacity has not been replaced with more fuel-efficient and appropriate aircraft. The current Airbus narrow-body procurement is part of the fleet renewal »

A STRATEGY FOR GROWTH

The group corporate strategy for the period 2012-15 is informed by SAA's current competitive position, the major forces driving change in global aviation, SAA's mandate and objectives as a state-owned company, and the lessons that can be learned from successful airlines.

The strategy is centred on the following objectives:

- Capitalisation of SAA.
- Supporting the shareholder to develop a "whole-of-state" aviation policy, leading to a unified implementation framework across a range of departments, including Transport, Tourism, International Relations and Cooperation, Trade and Industry, and Home Affairs.
- Exploring opportunities for cooperation/ consolidation with other Southern African Development Community (SADC) carriers.
- Compressing the group's non-fuel unit costs by 20% by 2014.
- Working with government to resolve inefficiencies in the SAA-SA Express-Airlink operating model by integrating SA Express (and potentially Airlink) into SAA.
- Evaluating potential involvement in a (non-equity) airline joint venture agreement.
- Establishing an operational hub in West Africa.

The plan identifies two other major initiatives:

- Establishing a flight academy to train pilots for SAA's own transformation requirements and the African aviation sector generally.
- Managing risks under changing environmental legislation, and reducing SAA's carbon footprint, while trimming operating costs and creating revenue opportunities from waste.

In combination, these steps would strengthen the carrier's ability to compete with Ethiopian Airlines, Kenya Airways, Egypt Air and Emirates, which have been taking market share from SAA.

Table 1: Ranking of major African airlines by scale with Emirates comparison, 2010

Airline	2010 passengers (000)	2006-2011 capacity (monthly seat) changes	2010 RPKs (millions)
Egypt Air	9 517	+75%	20 395
South African Airways	6 634	-3%	21 205
Royal Air Maroc	6 034	+6%	12 719
Comair	3 858	+70%	3 834
Air Algerie	3 500	+8%	N/A
Ethiopian Airlines	3 344	+100%	11 645
Kenya Airways	3 041	+44%	8 634
Tunis Air	2 443	+22%	3 443
Arik Air	2 303	+100%	N/A
Air Mauritius	1 133	+23%	5 691
Emirates	31 422	+83%	146 134

programme (see box on page 15). The new aircraft will replace older Boeing narrow-body aircraft, but this will not result in increased passenger capacity. According to the International Air Transport Association, the SAA Group is ranked 33rd globally by revenue and 48th by passenger capacity, measured in available seat kilometres (although it is now ranked outside the top 50 airlines by passengers carried). It remains the largest airline in Africa, but only when measured by RPKs. Egypt Air carries 43% more passengers in a single airline group.

Throughout SADC member countries there has been a sharp decline in the scale of state airlines, as shown in Table 2.

Several privately held airlines in SADC countries have also ceased operations over the past two decades, including Hewa Bora (Democratic Republic of Congo), Air Zambezi (Zambia), and Velvet Sky, Flitestar, SunAir, Phoenix and Nationwide (South Africa). Within Southern Africa, Ethiopian Airlines and Kenya Airways, as well as Dubai-based Emirates, are quickly filling the gaps left by other carriers.

SAA's three principal African competitors – Ethiopian Airlines, Kenya Airways and Egypt Air – operate as integrated airline groups that combine long-haul, regional and feeder airlines under one company. This allows for efficient deployment of capital into the most profitable aircraft fleet and integrated network planning. This advantage is not available to SAA because the state's aviation assets (specifically, SAA and SA Express) are operated with separate board and management structures.

3.2 MARKET INEFFICIENCIES

The South African government owns two airlines – SAA and SA Express – with a third, Mango, also housed within the SAA Group. SA Express serves smaller domestic destinations and links passengers to SAA's network using smaller aircraft. The three airlines have the same shareholder – the Department of Public Enterprises. Coordination takes place at:

- **Shareholder level.** For example, the Minister's power to approve new routes.
- **Commercial level.** SAA licenses its brand and operating code to SA Express.
- **Infrastructure level.** SAA provides IT and related services to SA Express.

Airlink is a privately held airline that operates smaller regional jets and turboprop aircraft. SAA licenses its brand and code to the carrier, and provides it with some IT systems and infrastructure, thereby contributing to Airlink's commercial viability. This relationship began in 1997, when Airlink adopted the SAA brand under a franchise agreement. In 2000, »

Table 2: Capacity changes among SADC member state airlines, 2006-2011

	Seat capacity			Available seat kilometres* (millions)		
Airline	Nov-06	Nov-11	Growth	Nov-06	Nov-11	Growth
Air Botswana	30 905	41 345	34%	16	21	31%
Air Madagascar	90 558	93 958	4%	178	155	-13%
Air Malawi	22 023	14 944	-32%	17	11	-35%
Air Mauritius	125 426	140 472	12%	714	689	-4%
Air Namibia	55 287	92 674	68%	176	206	17%
Air Seychelles	50 944	42 230	-17%	168	152	-10%
Air Tanzania	53 130	-	-100%	38	-	-100%
Air Zimbabwe	43 113	17 790	-59%	99	41	-59%
LAC	No data					
LAM	88 899	88 019	-1%	151	103	-32%
SAA	1 172 257	1 140 088	-3%	3 029	2 778	-8.3%
TAAG	97 094	88 784	-9%	205	50	-76%
Total	1 829 636	1 760 304	-3.8%	4 791	4 206	-12.2%

*Available seat kilometres, or ASK, is the standard industry measure of available capacity

SAA acquired 10% of Airlink's issued capital and executed a range of agreements to redefine Airlink as a regional feeder for SAA. The original agreements restricted the relationship to flights with not more than 32 seats of capacity, and to regional services to Mauritius, Madagascar, the Comoros and Réunion. In 2009, Airlink was recapitalised and SAA's equity was diluted to 2.9%.[1]

The relationship became more imbalanced after Airlink acquired eight Avro RJ85 regional jets, which seat 83 passengers – additional capacity that cannot be absorbed in an over-traded domestic market. This aircraft type goes well beyond the 32 seats envisaged in the original agreement. The result is capacity overlap on routes from Johannesburg to Lusaka, Ndola, Antananarivo and Pemba. This creates challenges for SAA, Mango and SA Express when they evaluate opportunities to expand African route networks. Airlink's aggressive approach particularly affects SA Express, as its fleet is similar, with aircraft seating from 50 to 74 passengers.

Inefficient allocation of the state's aviation capital does not allow for returns to be maximised. Resolution of this issue is a matter for the shareholder.

3.3 STATE AVIATION POLICY AND SAFEGUARDING NATIONAL INTERESTS

The way that South Africa's airline assets are organised requires rethinking, with a clear vision for the aviation sector. Successful state-owned airlines typically have a single focus for aviation policy. This optimises an airline's efficiency, strengthening its strategic and economic contribution, and allowing for rapid decision-making.

SAA's major competitors (Emirates, Ethiopian Airlines, Kenya Airways and Egypt Air) are all

[1] Airlink's major shareholders are Rodger Foster, co-founder and current CEO; Barry Webb, co-founder; Osprey Airline Investment (Pty) Ltd; Osprey Holdings (Pty) Ltd; and Nedgroup Investments.

fully or partially state-owned. Their governments have unified aviation policy frameworks in place, supporting the rapid deployment of capacity and market expansion. Emirates, for example, has grown its operations to South Africa by 160% over the past three years. The United Arab Emirates government sees the carrier as an enabler of its broader strategic vision, growing foreign exchange earnings from tourism revenue and reducing reliance on commodity exports.

South Africa needs a similar approach to enable SAA to support the country's strategic economic growth path. Without such vision there is a risk that the carrier could be seen as a vehicle to address the exigencies of the day.

While the SAA Act (2007) and shareholder's compact intend the airline to be a strategic asset, South Africa does not have a "whole-of-state" policy framework in place. A national policy would guide close cooperation between various government departments to ensure aviation's value in supporting South Africa's developmental objectives.

Consider a practical example of not having an integrated approach. South Africa maintains a transit visa regime and applies high airport charges to carriers, reducing the competitive position of Johannesburg as a hub and strengthening the position of Kenya Airways' Nairobi hub. An integrated state aviation policy would ensure that government departments are working together to strengthen South Africa's economic position.

South Africa must also carefully consider its approach to "open skies" agreements. All major aviation markets are opening up to new airlines, yet the term "open skies" is a misnomer, since all countries negotiate landing rights and slots according to their national interests, and no skies are truly open from a competitive standpoint.

SAA's competitive terrain is principally in the sub-Saharan region. Securing liberalisation of this market in the airline's favour is crucial and will require support from the shareholder. South Africa currently has 25 wholly or partially "open" agreements in place with African states. This has allowed SAA to increase its services in key African markets, while carriers such as Air Namibia, Egypt Air, Ethiopian Airlines and Kenya Airways have increased their presence here.

Open skies agreements, however, tend to favour the strongest carriers. While South Africa continues to support expanded global trade and investment, it must also have a strategic approach to ensure that it protects its vital economic interests, which include SAA. For this reason, a decision to support open skies agreements with non-African states would be extremely detrimental to SAA and South Africa's long-term interests.

There is also widespread reform of bilateral air services agreements that govern air traffic between countries. One developing pattern holds risks for SAA: sub-Saharan nations without commercially viable carriers are giving away traffic rights to nations with major network carriers, such as the United Arab Emirates. Each new direct connection between countries with strong airlines and African countries without international carriers reduces the need to travel via the Johannesburg hub.

An example of how this affects SAA can be seen in South Africa's granting of extensive bilateral rights provided to Emirates, which covers 70% of SAA's long-haul international (non-African) routes, and which is heavily subsidised by its government.

SAA will support the shareholder in the establishment of an aviation forum to help bring about an integrated approach that supports the country's developmental priorities.

More generally, the company and its shareholder need to focus on improving the pace of decision-making, as rapid decisions have to be made to stay competitive in the industry.

3.4 A UNIFORM APPROACH TO SAA'S MANDATE

As a state-owned carrier, SAA has a dual mandate. It needs to be both a strategic asset supporting developmental state policy, and a viable commercial entity that trades on the strength of its balance sheet.

There is not a uniform understanding of this mandate. As a result, some commercial decisions taken during the tenure of the Board have attracted adverse attention and comment from a range of observers, including national and provincial departments, as well as other governments. Disapproval tends to focus on route withdrawals or SAA's "refusal" to either start operations or increase existing ones.

SAA is required to run a sustainable business. At the same time, for most of the Board's tenure, it has been expected to fund its growth from retained earnings, which cannot be done when the business has been historically undercapitalised. SAA monitors the profitability of its current routes and assesses potential new markets. Yet when commercial decisions are made, SAA is often pressured to reverse unpopular decisions or to commence certain services.

In November 2010, for example, SAA withdrew operations from the Durban-Cape Town route and transferred the operations to Mango. Despite extensive consultation, various levels of government reacted negatively. The move was seen as a sign that SAA was "deserting" KwaZulu-Natal by not commencing international operations from Durban, which would have incurred substantial losses. The net financial effect of SAA's decision – with no effective loss of service – has been to eliminate an annual loss in excess of R100 million. Mango now operates a profitable Durban-Cape Town route.

The recently announced shift of capacity from the Cape Town-London route is a similar case. SAA had to withdraw from a route on which it was sustaining large-scale losses after all reasonable measures had failed to restore it to profitability.

Without capitalisation, SAA will not have the ability to develop new routes that support the country's growth objectives. SAA has increased the use of its existing fleet and reconfigured its network to allow for new African routes and the Beijing route. However, no more can be done without additional aircraft or exiting from some current routes.

3.5 LEADERSHIP AND MANAGEMENT CONTINUITY

The government, like the private sector, faces stiff competition for talent at board and senior management level. An ideal SAA Board will demonstrate a good mix of experienced directors who understand their roles and responsibilities toward probity and stewardship, interspersed with people with specific airline experience and who are passionate about corporate governance.

The Board is of the view that the shareholder should consider extending the tenure of future boards. Given that SAA has to conduct long-term business planning and structure capital investments over a decade or more, which involves working extensively with the shareholder, a three-year term is probably inadequate. A five-year term for future Boards would serve the shareholder and the company better.

The articles of association state that at least one-third of directors must rotate when a new Board is appointed – a sensible approach to leadership renewal. However, only one director was retained when the new Board was appointed in 2009, leaving a very thin line of continuity.

4. CONCLUSION

SAA is a national asset. It has the strongest reputation of any airline on the continent. And while it faces many challenges, it has the ability to grow and prosper as it serves South Africa, Africa and the world. The outgoing Board has worked to strengthen the platform on which to build SAA. It has stabilised the management team, strengthened controls and enhanced communications with all stakeholders.

SAA has restructured operations to diversify its routes and maximise profitability while managing costs, with the ultimate goal of positioning the carrier to play a growing role on the African continent. None of these measures would have been possible without investing in the carrier's current and future human capital. The outgoing Board has put in place measures to improve transformation and representation within its employee complement. It has also tightened up its procurement practices for greater accountability and transparency, and to further development of small, medium and micro businesses, and businesses owned by women.

Much has been achieved in the past three years, but much still needs to be done. SAA needs to continue investing in its own future if it is to achieve both its commercial mandate of running a sustainable, profitable business, and its developmental mandate of improving economic linkages between South Africa and the rest of the world. This investment requires an appropriate level of capitalisation, which cannot be realised given SAA's historically weak balance sheet.

Running an airline requires long-term capital allocations and planning. SAA needs to place fleet orders now to ensure it has the right aircraft in 2016. Several decisions that will affect the company are urgently required by the shareholder, represented by the Minister of Public Enterprises. The outgoing Board believes the collaborative relationship built with the department over the past three years will facilitate this process.

We trust that this report will help the incoming Board of Directors realise SAA's mandate.

APPENDICES

A. SAA GROUP OVERVIEW

SAA was founded in 1934 after the government's acquisition of Union Airways. The current group structure is depicted in Figure 5.

In 2009, facing going-concern issues, SAA sought a subordinated loan from the shareholder. The conditions of the guarantee, set out by the National Treasury, required SAA to consider structural changes to its subsidiaries. These included options for expanding Mango or rolling it back into SAA, obtaining an equity partner for SAAT and selling off Air Chefs. After a series of reviews, the outcomes of these considerations were as follows:

- The 2011/12 shareholder's compact resolved to retain Air Chefs and make it sustainable.
- The SAAT Board decided to focus on strategic growth, restructuring and targeting third-party revenue growth to reduce reliance on SAA.
- Mango was judged integral to SAA's future and was retained.

Mango, SAAT, Air Chefs and the SATC remain core businesses for the SAA Group.

Mandate and shareholder compact

In terms of the PFMA, SAA is a Schedule 2 state-owned company. The SAA Act places ownership with the Department of Public Enterprises. The preamble of the act defines the airline as the national carrier and a strategic asset that enables the state to contribute to key domestic, regional and international air services. The intention is to retain SAA as South Africa's national carrier, supporting the extensive air transport capacity required by a growing economy.

Each year, SAA concludes a shareholder's compact with the Department of Public Enterprises, signed by the Chairperson of the SAA Board and the

Minister of Public Enterprises. The compact defines SAA's mandate and strategic objectives for the year, expanding on the company's role as prescribed in the act.

Memorandum of Association

SAA's Memorandum of Association defines the group's main objective as engaging "in passenger airline and cargo transport services, air charter services and other related services".

The shareholder and the Board agree that SAA must "be an African airline with a global reach". To achieve this, SAA serves a wide range of

Figure 5: Group structure*

Brands	Target markets
South African Airways	International, regional and domestic passenger markets. Full-service product targeting corporate, government, high net-worth individuals and leisure travellers.
mango	Domestic and regional price-sensitive leisure and business passengers, offering affordability and accessibility.
	Conducts aircraft maintenance, repair and overhaul for SAA, Mango and third-party airlines throughout the SADC region.
AIRCHEFS	In-flight service operations for international, regional and domestic airlines.
South African Travel Centre	Retail travel agency franchise network targeting increased SAA sales revenue (corporate and leisure customers).

*SAA Cargo is a branded division within the group, but is not a subsidiary.

destinations, focusing on profitable routes to each continent and linking with key cities and airports. This mandate is not currently included in the Memorandum of Association. This amendment will be made when the memorandum and the articles of association are combined into SAA's new Memorandum of Incorporation, as required under the amended Companies Act.

MANGO (PTY) LIMITED

Core business and strategy

Mango was established in 2006 in response to the growth of low-cost carriers in the domestic market, and to counter route and market-share losses resulting from SAA's uncompetitive cost structure. The airline is mandated to improve the affordability and accessibility of domestic and regional air travel. Mango and SAA operate in a dual-brand model – a holding company structure with two operating brands focused on different market segments.

Over the past three years, Mango has continued to add strategic and financial value to the SAA Group. Its low-cost model and innovative approaches have ensured that it remains highly competitive. The carrier:

- Facilitates short-haul passenger retention and growth. It has grown group passenger volumes by 8 million passengers since inception and accounts for about 33% of the group's domestic passengers.
- Helps to reduce group unit costs and cost per passenger.
- Provides strategic flexibility in brand deployment and expanded reach.

Ongoing challenges

Mango confronts the generic challenges of volatility in fuel cost and exchange rates, supply/demand disequilibrium and the threat of future market entrants. It also faces specific challenges regarding scale limitation. Confronted with uncoordinated group strategy implementation following its initial launch and the world recession of 2008-10, Mango experienced four years of fleet stagnation. During the term of the outgoing Board, and in the face of growing low-cost carrier competition, Mango expanded its fleet (one unit added in 2011 and one in 2012), grew operations in Lanseria and obtained rights to the Johannesburg-Mauritius route. Market trends indicate scope for future growth.

SOUTH AFRICAN AIRWAYS TECHNICAL (PTY) LIMITED

Core business and strategy

SAAT is the sole provider of aircraft maintenance for SAA and Mango in Africa, and supplies line maintenance for over 25 other domestic, regional and international airlines. Heavy maintenance is supplied for four major customers. SAAT has a highly skilled technical workforce, a very good training facility and a series of long-term customer agreements. The strategic outlook is to build on these strengths. SAAT has been profitable for the past two years and can remain so in the long term.

Ongoing challenges

SAAT needs to grow its business to reduce its reliance on SAA and Mango, which account for 85% of revenue; reduce high turnaround times for major maintenance; and ensure that high labour costs do not render SAAT uncompetitive.

SOUTH AFRICAN TRAVEL CENTRE

Core business and strategy

SATC is a retail travel agency franchise network that aims to increase SAA Group sales by targeting corporate and leisure customers.

Ongoing challenges

The world has moved on since the creation of SATC, particularly with regard to competition law, and it can no longer function using the same business model. This poses the challenge of developing an effective value proposition to franchisees, the number of which has fallen from 120 to about 60 in recent years. SATC needs to define a new role for itself. Focus is required to grow the number of franchisees to increase market share in an ultracompetitive environment and support SAA's expansion.

AIR CHEFS (PTY) LIMITED

Core business and strategy

Air Chefs is an airline caterer that pursues global best practice in providing an affordable and high-quality catering and related service to SAA and the broader aviation industry. Air Chefs has four strategic focal points:

- Increase market share by expanding into Africa, where there is an opportunity to help expand SAA Group operations into the continent.
- Pursue non-airline business by differentiating services.
- Invest to grow the business.
- Build on its human capital to leverage global contracts.

Ongoing challenges

The main challenge facing Air Chefs is to deliver consistent profitability in a competitive market.

B. THE SAA BOARD AND ITS STRUCTURE

The outgoing SAA Board of Directors was appointed in September 2009. Its term is due to expire during the fourth quarter of 2012.

Mandate and charter

The Board is responsible for the overall wellbeing and positive development of SAA. Its primary responsibilities include:

- Giving strategic direction to the company and its management.
- Ensuring good governance.
- Identifying key risk areas for the business.
- Monitoring investment decisions and considering significant financial matters.
- Reviewing the performance of executive management.

Effective governance requires that the Board works closely with its shareholder to induct and develop new members, and – when necessary – ensure the departure of those not contributing effectively to the company's growth and success. The chairperson works closely with the Minister of Public Enterprises to ensure good governance. The Board is also responsible for:

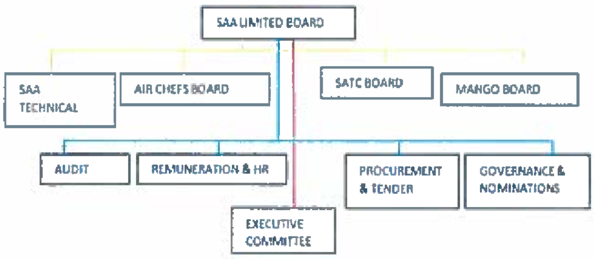
- Retaining full and effective control over the company.
- Monitoring management in implementing Board plans and strategies.
- Ensuring that a comprehensive system of policies and procedures is in use.
- Identifying and monitoring non-financial aspects relevant to the business.
- Ensuring ethical behaviour and compliance with relevant laws and regulations, audit and accounting principles, and SAA governing documents and codes.
- Benchmarking the airline's performance against international best practices.
- Striving to act above and beyond the minimum requirements.
- Instituting effective mechanisms to ensure the

Board takes responsibility for the performance of its functions.
- Acting responsibly towards the company's stakeholders.

The Board does not manage the company on a day-to-day basis. It is concerned with strategic processes that give effect to good governance. It reviews and approves:

- Business plans, financial proposals and other policies proposed by management.
- Processes to identify and manage risk and compliance in all key areas.
- Delegations of authority for capital expenditure.
- Investment, capital and funding proposals reserved for Board approval.
- Management team succession planning.
- Executive appointments, organisational changes and high-level remuneration.
- Performance against targets and objectives.
- Reporting to the Minister of Public Enterprises.

Figure 6: SAA Group Board structure



Board composition and structure

The structure of the SAA Board and its relationship with subsidiary Boards, and SAA Board subcommittees, is shown on the right.

The outgoing Board of Directors, appointed in September 2009, was subsequently expanded to ensure that directors' skills covered the full range of expertise required, such as in human resources, auditing and competition law. Its membership is indicated on the opposite page.

Director	Appointment date
Cheryl Carolus	28 September 2009
Teddy Daka	28 September 2009
Tukela Cyril Jantjies	28 September 2009
Bonang Mohale	28 September 2009
Duduzile Myeni	28 September 2009
Lindiwe Nkosi-Thomas	28 September 2009
Russell Loubser	28 September 2009
Kaushik Patel (executive director)	Appointed 26 October 2007 (resigned 15 December 2010)
Christopher Smyth (executive director)	Appointed 13 February 2009 (resigned 31 March 2010)
Margaret Whitehouse	First appointed 24 October 2006; reappointed 28 September 2009
Additional directors appointed during the term of the current Board	
Louis Rabbets	2 December 2009
Zakhele Sithole	2 December 2009 (passed away on 18 August 2012)
Abel Bouchon	2 December 2009 (resigned 31 October 2010)
Yakhe Kwinana	2 December 2009
Jabulani Ndhlovu	25 February 2010
David Lewis	3 May 2010
Sizakele Mzimela (executive director)	1 April 2010
Wolf Meyer (executive director)	13 June 2011

The Board induction programme aims to:

- Familiarise incoming directors with their rights, duties and functions.
- Ensure that new directors attain a level of understanding of the business.
- Maximise the capacity of new directors to contribute to the work of the Board.
- Ensure that new directors make informed decisions on matters concerning SAA.

Board subcommittees

In structuring its committees, the Board endeavoured to use its members' skills appropriately and to share responsibility equitably. Initially, every Board member chaired a committee or subcommittee, although this has changed in line with structural shifts.

Audit Committee

The Audit Committee is responsible for all aspects of the SAA Group's internal audit function. It reviews the company's annual financial statements and internal control systems, and oversees the objectivity and independence of auditors. The membership of the committee is as follows:

- Zakhele Sithole (Chairperson)*
- Bonang Mohale
- Lindiwe Nkosi-Thomas
- Russell Loubser
- Yakhe Kwinana
- Louis Rabbets
- David Lewis

*Mr Sithole passed away on 18 August 2012.

The committee's key resolutions, most of which take the form of recommendations to the Board, cover matters such as regularising the process for approval of sponsorships, the policy on auditor independence, the IT governance framework, settlement of litigation related to competition law and accounting policies.

Remuneration and Human Resources Committee

The Remuneration and Human Resources Committee oversees conditions of employment, employee development and relations, remuneration and benefits, affirmative action and retirement policies, succession planning and compliance with relevant legislation. Its membership is as follows:

- Jabulani Ndhlovu (Chairperson)
- David Lewis
- Dudu Myeni
- Cyril Jantjies

The committee oversaw the development of a new performance management and review system, which supports accountability and sustainable business performance, and a new talent retention scheme that emphasises performance contribution.

Procurement and Tender Processes Committee
The Board established this committee in early 2010 to improve the procurement function across SAA, which exhibited large gaps in governance, people and systems, and Board oversight of these matters. Its composition is as follows:

- Louis Rabbets (Chairperson)
- Zakhele Sithole (passed away on 18 August 2012)
- Teddy Daka
- Margie Whitehouse

The committee has done a great deal of work to resolve legacy concerns and establish functioning, compliant systems, as discussed on page 15. Its key resolutions include:

- Company-wide adoption of the procurement policy.
- Improved performance in transactional compliance.
- Training of procurement personnel and company-wide policy training.
- Service-level agreements in place and signed with major clients.
- Procurement negotiated savings in excess of R100 million in 2011/12.
- Contribution to SAA's B-BBEE level from level 8 in 2008/09 to level 5, with preferential procurement at 65% (34% in 2008/09).

- Improved PFMA compliance, as seen in latest internal audits.

The status of the procurement clean-up project remains a standing agenda item.

Social, Ethics, Governance and Nominations Committee
This committee is responsible for ensuring an appropriate skills mix (including within the Board), overseeing Board induction and director development, and supporting best practice in corporate governance, focusing on the implementation of the new Companies Act and King III. The committee has recently been renamed to reflect its additional responsibilities in the oversight of ethical conduct and transformation. The committee is composed of:

- Cheryl Carolus (Chairperson)
- Lindiwe Nkosi-Thomas
- Russell Loubser

The main work ahead is to finalise SAA's approaches to ethical conduct and transformation, which includes its corporate social investment portfolio.

Ad-hoc Committee on Litigation
On 17 February 2011, the SAA Board established the Ad-hoc Committee on Litigation. The committee serves as the principal conduit with SAA's attorneys of record; takes time-sensitive decisions in the management of legal proceedings and manages the costs of litigation; serves as the main point of contact with the Anti-Corruption Task Team and prosecuting authorities; and monitors, advises and reports to the Board on litigation. The committee's members are:

- Lindiwe Nkosi-Thomas (Chairperson)
- Margaret Whitehouse
- Zakhele Sithole (passed away on 18 August 2012)

Group legal counsel and SAA Secretariat attend all committee meetings. Much of the committee's work involves the litigation and other matters related to the conduct of the former CEO. These matters are summarised in Appendix D.

C. BOARDS OF SAA SUBSIDIARIES

SOUTH AFRICAN TRAVEL CENTRE

Member	Appointment date
Bonang Mohale (Chairperson)	1 April 2009
Cyril Jantjies	1 April 2010
Sizakele Mzimela	1 April 2010
Bulelwa Koyana	1 September 2011
Faizal Peer	1 November 2010

AIR CHEFS

Member	Appointment date
Margaret Whitehouse (Chairperson)	11 September 2007
Duduzile Myeni	1 April 2010
Sizakele Mzimela	1 April 2010
Alison Crooks	1 November 2010
Michael Muller	1 June 2011
Theunis Potgieter	28 June 2012

MANGO

Member	Appointment date
Rashid Wally (chairperson from 1 April 2012)*	30 October 2006
Petra Krusche	30 October 2006
Theo Adams	29 September 2008
Nico Bezuidenhout (CEO)	30 October 2006
Lindiwe Nkosi-Thomas	1 April 2010
Russell Loubser	28 June 2012
Sizakele Mzimela	28 June 2012
Mariette Ebersohn	28 June 2012

SAA TECHNICAL

Member	Appointment date
Teddy Daka (Chairperson)	1 April 2010
Jabulani Ndhlovu	1 April 2010
Yakhe Kwinana	1 April 2010
Sizakele Mzimela	1 April 2010
Musa Zwane	1 November 2010
Sikhumbuzo Zulu	1 November 2011

D. SUMMARY OF LITIGATION AGAINST FORMER CEO

In February 2009, the previous SAA Board appointed KPMG to investigate allegations against SAA's former CEO, Mr Khaya Ngqula. Its key findings include the following:

- The value of retention bonuses granted with the approval of the former CEO (and in excess of his authority and without Board authorisation) exceeded the approved amount by more than R27 million.
- The former CEO exceeded his authority in concluding sponsorship agreements with professional golfer Mr Angel Cabrera to the minimum value of US$3 million, and with the Association of Tennis Professionals to the total value of about US$40 million.
- The former CEO granted junkets to personal friends and associates at SAA's cost, using company resources unrelated to SAA's business.

The new Board procured legal opinion concerning its obligations regarding these findings. The Board was advised that it had an obligation, in its capacity as the accounting authority under the PFMA, to institute civil proceedings in relation to various claims identified in the KPMG report. The Board was also advised that it could refer these matters for further consideration by the police and prosecution authorities.

As a result, High Court actions have been instituted relating to the retention bonus, the Cabrera issue, the Association of Tennis Professionals issue and the junkets issue. The following criminal complaints were also laid against the former CEO:

- CAS50/08/2010 relating to retention bonus scheme
- CAS178/02/2011 relating to junkets
- CAS179/02/2011 relating to Association of Tennis Professionals sponsorship.

A criminal complaint in relation to the Cabrera sponsorship has also been prepared and is on the verge of being laid.

SAA elected to pursue only those civil claims where it was advised of a reasonable prospect of success. The claims are being heard, or will be heard, in the courts.

The aggregate value of these claims, depending on how the courts decide to handle the Association of Tennis Professionals claim, ranges between R115 million and R247 million. Estimated legal costs (excluding VAT) for the above-named cases total R4.4 million, with future legal costs estimated at about R8.5 million. The final amount will depend on how the litigation unfolds. Legal costs to date for the KPMG forensic investigation and related work total about R4.3 million, excluding VAT. Depending on the approach taken by the Special Investigating Unit, more legal work may be required.

Various risks and challenges in the civil litigation have been identified. These include dealing with various defences raised by the former CEO that go to the heart of the PFMA structures in place in SAA at the time (such as delegated authority frameworks), prescription issues, as well as the availability of relevant documentation and witnesses who are no longer employed by SAA. There is also the risk that, even if SAA is successful with all or some its claims, the former CEO may not have sufficient assets to meet the claims.

SOUTH AFRICAN AIRWAYS
A STAR ALLIANCE MEMBER

"F"

Razeen Sally A Romney victory would benefit not only the US but the rest of the world. Page 15

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SAA puts its AGM on hold in bid to secure bail-out

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CAROL PATON

Greece burning Police battle protesters as thousands join strike against austerity Page 9

A police officer tries to escape from a Molotov cocktail during a strike in Athens yesterday.

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CAROL PATON

Continued on page 2

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"G"

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1 Carolus blames departure on 'comedy of errors'

Heather Formby05 Oct 2012 00:00

But it was too late to prevent chairperson Cheryl Carolus and seven other board members from dramatically announcing their resignations the day before, saying their decision was a matter of reputation and the result of a breakdown in relations with the airline's shareholder, the government.

As directors, the board members were responsible for making sure that the financial statements were submitted on time – within six months of the end of the financial year, as required by the Companies Act. The deadline was Sunday September 30.

"We had to resign on Thursday to give time on Friday for the resignations to be implemented," Carolus said. "We would have preferred to resign elegantly, but we had to protect our reputations.

Not presenting the financial statements was a reckless threat to our legal standing."

The problem arose for Carolus and the board members as a result of the parastatal's auditors not signing off the financial statements for the year that ended March 2012 as unqualified without the letter of guarantee. The guarantee was stuck in "the system" and the government had postponed the annual general meeting a number of times, saying that the financial statements were not ready.

Turf wars

"It was a comedy of errors," Carolus said, "caused by turf wars and bureaucrats who still work with paperclips and drawing pins and complete forms on bits of paper in triplicate."

The tipping point came when Parliament was advised that SAA wanted to postpone the annual general meeting once again because the financial statements were not ready, which Carolus said was untrue.

"The only outstanding item for the financial statements was the letter from the treasury, which had been sitting in the system for four months," she said. "We, as a board, were made to look as if we were inefficient, while aspersions were also being cast about the financial statements for SA Express and SA Airlink, insinuating that there may be some cooking of the books."

Carolus said she resigned to protect her board and her management. However, she did not think the blame lay with Public Enterprises Minister Malusi Gigaba, who she complimented as a man of integrity with a good work ethic, but rather with the system that, she said, had let him down. "Heads should roll," she said, although in systems and bureaucracies the culprits are often difficult to uncover.

"I find it extraordinary that some people can destroy lives and reputations through callousness and bureaucracy. The stressful situations it causes means a lot of skilled people avoid working for parastatals."

Lack of support

Fellow board member and former JSE chief executive Russell Loubser, who also resigned, supported Carolus, saying the problem boiled down "to a lack of moral and financial support from the shareholder. I have been totally frustrated and disillusioned. The airline has hard-working, honest management and staff and an outstanding chairperson. I have never seen this type of behaviour from a shareholder in all my life in business. I believe the government should either support the airline or close it down. A shareholder cannot just remain silent and do nothing."

An "elegant" departure by Carolus and a few of her board members had already been planned and communicated to Gigaba at a dinner a few weeks before, when he was told that certain board members would not be standing for re-election and a discussion was held about how to announce this at the annual general meeting scheduled for early September. "Everyone seemed happy and we would have left elegantly if it was not for a matter of government bureaucracy," Carolus said.

Carolus confirmed that this was not the first time government bureaucracy had caused problems for the airline.

"Despite being a parastatal, we operate in a very competitive market and need to move fast with some of our business decisions. But we have all the additional government compliance requirements put in place by people, who do not understand how businesses work, hampering our progress. We have had to put up with some slow decision-making on the part of our shareholder with regard to some major strategic changes, such as new routes, where competitors have moved faster and gained the upper hand."

Since the resignations, the long-awaited and much-postponed SAA annual general meeting has now been set for October 15. "It took half the board to resign to get the date to be set," Carolus said. "It's just a pity that what would have been a very upbeat AGM has gone pear-shaped."

Carolus, who has been chairperson since 2009, said she and her board had worked with the management team, led by chief executive Siza Mzimela, to devise a medium-to-long-term strategy for the airline for it to compete globally and become profitable, something which it had never done before. "We found it rewarding to work with the minister, who saw the benefits of our Africa and emerging market strategy and signed off our business plan."

Poor reputation

But while trying to place SAA on a new path, Carolus has had to contend with the airline's poor reputation gained by past failures, numerous government bailouts and accusations of corruption and misuse of funds by previous management. She said it was a pity that the expected R1-billion profit for this year was scuppered by the sudden rise in the oil price to more than $120 a barrel, causing an additional fuel cost of R2.2-billion. "If it wasn't for fuel increases, we would have made a profit this year," she said.

Carolus might also find it difficult to fend off criticism that the airline has received a R5-billion guarantee from the government, allowing it to borrow in capital markets. Because the international strategy for SAA had shifted from long-haul flights mostly to Europe to flights to African destinations that take half the time, it needed a new, different kind of fleet and therefore more funds, Carolus said.

"We need a competitive advantage and have to shift with global trends, which see trade and business moving to Asia and South America. That also ties in with our tourism strategy of attracting new visitors from the East and the West and from the rest of Africa. SAA needs an injection of cash to strengthen its balance sheet and allow it to approach the markets to raise capital. We won't be able to fund a new fleet on our own."

The new board members, announced almost immediately after the resignation of Carolus and her seven colleagues, will have to decide whether they are able to follow through on the strategy and give their support to management, which is already working on implementing it. The problem now is that the "fresh blood and different skills", as Carolus described the new board members, might decide to do something completely different.

Perhaps the lesson to be learned from the drama of the past two weeks is that the government needs to change its ways by moving away from its bureaucratic tendencies to a more streamlined era of technology- and business-based decision-making. But, in all probability, it will not and the slow machine of bureaucracy will continue to undermine public and private enterprises.

"H"

https://mg.co.za/index.php

1 New SAA boss faces bumpy ride

12 Oct 2012 06:00

Bumped up to executive chairperson after South African Airways chief executive Siza Mzimela quit on Monday, Vuyisile Kona, like many of his predecessors, has an in-tray from hell.

It has been widely reported that the airline will post a loss of R1.25-billion this year. To ensure the government's R5-billion loan guarantee, Kona must deliver yet another turnaround plan to its shareholder, the department of public enterprises, as well as the treasury. This will require monthly reports to both departments.

The expected loss follows on from last year's nearly R23-billion in revenue and R782-million in profits.

But aside from sourcing much- needed capital and squeezing cost efficiencies from a state-owned entity, Kona has to set about repairing the apparent strained relationship between the department of public enterprises' aviation unit and the airline's management.

The exit of the chief executive, two senior managers and most of the board under chairperson Cheryl Carolus has led to allegations that leaders are jumping the plummeting airline.

This is countered by continued assertions by previous board members that the government failed to give adequate support to the company and its management.

Leadership squabbles aside, the airline's performance cannot be isolated from the difficult and generally depressed global economic environment and rising fuel costs.

Further bailouts

There are, however, long-standing internal legacy issues with which Kona will have to deal that could go some way towards preventing further bailouts from taxpayers.

There remains, particularly at middle and upper management levels, a good deal of "fat built into the system", as one trade union source, who did not want to be named, put it.

This includes generous leave packages negotiated over a number of years for staff such as pilots, who require licences. And this would be a very difficult egg to "unscramble", the source noted. Although it is understood that SAA salaries are not exorbitantly above industry standards, allowances for items such as accommodation and food are generous.

Given the airline's status as a state- owned enterprise, sweeping changes on staffing policies are a particularly sensitive issue.

Kona will also have to replace the chief executive and her exiting managers - commercial general manager Theunis Potgieter and Sandra Coetzee, general manager for legal risk and compliance.

The rising fuel bill, which last year cost the airline well in excess of R6-billion, is said to be a large factor in the company's expected losses.

Carolus flagged the problem as early as February as a threat to the company's performance.

But SAA's location as what is termed an "end of hemisphere" carrier makes it particularly vulnerable to increases in fuel, because it has to fly that much further to reach most regions. This is in stark contrast to state-owned competitors such as those in the Gulf region that occupy middle-hemisphere status.

Conditions

With the increase in fuel costs, SAA has to purchase more fuel-efficient aircraft. In the conditions the government has set out for the new board, the turnaround plan must include a financing strategy for its planned purchase of a short- and long-haul fleet.

The routes the airline flies add complexity to the question of costs. It seems that strategic decisions on the viability of routes that carry consistent losses do not come rapidly enough.

This particular issue addresses one of perhaps the most joyless tasks Kona has ahead of him - patching up existing and forging new relationships between the department of public enterprises, the new board and the remaining management.

Russell Loubser, former chief executive of the JSE, told SAfm's Market Update with Moneyweb that the aviation unit at public enterprises was a major factor in the strained relationship. The unit is tasked with overseeing SAA and its subsidiary Mango, as well as the domestic and regional carrier SA Express.

Loubser argued that even the guarantee from the government was unlikely to be sufficient to help the technically insolvent company.

Turbulence of a temporary nature

Its woes could not come as a surprise to the unit, he noted, because it met with management on a monthly basis and it should have been obvious that SAA needed every possible support. Ministry spokesperson Mayihlome Tshwete questioned these assertions, saying Loubser had served a full term on the board and had had ample opportunity to raise his concerns.

The airline gave assurances earlier this week that, despite the upheaval, it viewed the resignations as "turbulence of a temporary nature, which must not be allowed to affect its ability to discharge its core function in a responsible and prudent manner".

The controversy surrounding his own appointment notwithstanding, Kona has the backing of Public Enterprises Minister Malusi Gigaba.

That backing is going to be needed because the outlook for the airline is unlikely to improve. Already there are rumblings of the limited fiscal space the government has available in the run-up to the treasury's medium-term budget policy statement. The airline has to compete with private sector players for profits and juggle a host of competing economic and political priorities to continue getting government support.

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https://mg.co.za/index.php

1 Minister and ex-board members butt heads over SAA

19 Oct 2012 09:22

Apart from operating losses of R1.3-billion, fuel costs soaring to R2.2-billion and the steady deterioration of the airline's liquidity, Gigaba was at pains to point out what he deemed to be "weak internal controls" at the national carrier.

Gigaba said the airline's former board, under chairperson Cheryl Carolus, failed to produce a long-term strategy to deal with many of these issues. Despite an adverse global aviation environment, the failure of SAA to perform in line with comparable airlines placed "undue pressure on the shareholder … to have to justify why we are maintaining a national carrier; why the government is involved in the business of airlines at all," he said.

But this week Carolus gave details of the strategy put forward by the former board during the past three years and in its 2012-2013 corporate plan to address the systemic performance problems at the airline. These included proposals to merge SAA with regional carrier SA Express.

On Monday after the meeting, Gigaba referred to issues highlighted by the parastatal's auditors, including the restatement of the company's financials and increases in irregular and fruitless and wasteful expenditure from the previous financial year.

"In the year under review, the restatement relates to maintenance reserves and Voyager income, a situation which has persisted for the past three years," Gigaba said in a press statement.

Integrity of the numbers

Although it was an acceptable accounting practice, he said, he was "concerned that it cast aspersions on the integrity of the numbers year on year".

"For example, last year's financial statements showed the equity balance at R2.9-billion at March 31 2011 and yet, after the change in the accounting policy and restatement, the equity at March 31 2012 was reduced to R475-million."

Irregular expenditure rose from R85-million to R128-million and fruitless and wasteful expenditure rose to R4-million, up from R2-million in 2011, R3-million of which was owing to baggage claims.

The changes in the accounting policies and the concomitant restatement of corresponding figures, among other things, resulted in the airline's debt-to-equity position deteriorating "to such an extent that it cast doubt on SAA's status as a going concern", Gigaba said.

The R5-billion in guarantees secured to keep the airline afloat is unlikely to be enough, particularly to begin overhauling its fleet.

The new board and management will have to convince the treasury and Gigaba's ministry of a workable long-term strategy for the airline before it gets any more aid.

Gigaba highlighted the failure of SAA to meet most of the key performance targets outlined in its shareholder compact, achieving only 13 of 29, or 44%. This reflects poorly on the board under Carolus, most of whose members cited a lack of shareholder support as a reason for resigning.

Corporate strategy

Carolus said this week that the former board was proud of its achievements at SAA, which were built "on the basis of a well-developed corporate strategy that the department of public enterprises approved".

"We firmly believe that the strategy developed by the management team, together with the board and approved by the department, over the previous three years has started to become operational," said Carolus. It included the increase of passenger revenues by more than 15% on the year before and increases in passenger loads by 80% on many routes, she said.

The company had also begun a cost compression programme, targeting savings of R1.3-billion, of which it had achieved R619-million for the year to September 2012. "This represents considerable improvement in the underlying cost base and operational efficiency of the airline. Included in this were a zero percent increase for management and a nominal increase for pilots."

SAA had also opened up several new routes into Africa, including flights to cities such as Cotonou in Benin, Kigali in Rwanda, Abidjan in Côte d'Ivoire and Brazzaville in the Republic of Congo, as well as a direct route to Beijing.

She said SAA's strategy had "consistently put forward the case for the amalgamation of SAA with SA Express Airways in order to harmonise the state's aviation assets".

In the airline's 2012-2013 corporate plan, it outlined seven major initiatives to address "systemic competitive or structural issues", Carolus said.

They included the capitalisation of SAA, compressing the group's non-fuel unit costs, resolving inefficiencies in the current SAA, SA Express and Airlink operating model by integrating SA Express and potentially Airlink with SAA, exploring co-operation and consolidation opportunities with Southern African Development Community member state airlines and establishing an operational hub in West Africa, connected to its existing regional network.

Other initiatives included promoting large-scale transformation through the SAA Flight Academy, an environment programme, the development of a fleet plan and a consolidated domestic operation focusing on core markets and key routes to improve profitability.

"J"

It is unfortunate that, despite several attempts to open lines of communication, the relationship between the Board of South African Airways and our shareholder has become intolerable and as a result we believe the Board cannot function efficiently and effectively. Therefore eight board members, including the chairperson, have resigned.

There has recently been unhealthy speculation in the media around the delivery of the SAA board to fulfil its obligations, and despite several attempts to engage with the shareholder to get support around the issues, none have been forthcoming. We believe this situation is not in the best interests of SAA and needs to be addressed urgently.

The facts are that audited financials have been delivered timeously to the shareholder; a long term vision and strategy have been presented to and approved by the shareholder, There is a team of dedicated executives who have worked together with the board to ensure that these deliverables were met in an efficient, effective manner, and we laud their commitment to the company. In addition, a transition document has been prepared by the outgoing board. This was to ensure that all was in order to ensure a smooth transition at the AGM. A number of the board members had not availed themselves to be available for re-election, and some were not eligible for re-election, so a change was anticipated, as is healthy in any board.

However, recent reports suggesting that the management team and the board of SAA have had this in place. The 2012 annual financial statements only await an input from the shareholder, thereby delaying the AGM only at the shareholder's request.

We hope that by taking such drastic action we will spur the shareholder to take immediate action to hold the required AGM, approve the financials, and appoint, and support, a new board to act swiftly together with the highly effective executive and management team to drive the business forward during these volatile times within the aviation industry.

Cheryl Carolus (Chairperson), Teddy Daka, Dave Lewis, Russell Loubser, Bonang Mohale, Jabu Ndhlovu, Louis Rabbets, Margie Whitehouse

"K"

It is with great regret, and a deep sadness, that we announce our resignation from the board of South African Airways. It has become apparent recently that there is a fundamental breakdown in our relationship with our shareholder. This has lead to unhealthy speculation in the media around the delivery of the board to fulfill its obligations, and despite several attempts to engage with the shareholder to get support around the issues, none have been forthcoming. We believe this is not in the best interests of SAA.

For the record there is a long term vision and strategy in place developed by the board and the South African Airways team that has been shared and approved by the shareholder. The 2012 annual financial statements have been timeously issued to the shareholder, and await an input from the shareholder, thereby delaying the AGM at the shareholder's request. There is a team of dedicated executives who have worked to ensure that these deliverables were met in an efficient, effective manner, and we laud their commitment to the company.

Over the past three years we have worked closely with the SAA team to ensure that the best interest of SAA and South Africa were always taken into account. We firmly support the executive team, their management and all the employees of South African Airways, and we thank them for their loyalty and support.

We wish you all the very best in what should be an exciting way forward.

Cheryl Carolus (Chairperson), Teddy Daka, Dave Lewis, Russell Loubser, Bonang Mohale, Jabu Ndhlovu, Louis Rabbets, Margie Whitehouse

MINISTER: FINANCE
REPUBLIC OF SOUTH AFRICA

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Ref. M3/15/21 (1877/12)

Mr MKN Gigaba, MP
Minister of Public Enterprises
Private Bag X15
HATFIELD
0028

Dear Malusi,

APPLICATION TO UTILIZE R500 MILLION OF THE SOUTH AFRICA AIRWAYS (SAA) R1.6 BILLION GUARANTEE TO RAISE FUNDS FOR ITS OPERATIONS

I refer to your letter dated 03 June 2012 concerning the above mentioned matter as well as I note the immediate financial pressures facing SAA as discussed in our meeting of 25 May 2012.

The officials from the Department of Public Enterprises and the National Treasury have jointly evaluated various options and the most cost effective and feasible solution for SAA is to reallocate R437 million of the existing R1.6 billion perpetual guarantee to meet the Domestic and International Air Services Councils' consumer protection guarantee requirements from 01 July 2012 to 30 September 2013. This will release banking facilities of R437 million earmarked for the consumer protection requirements for SAA. It will still be important for your department to engage with the Department of Transport to provide a transparent and equitable process in determining the requirements for these guarantees.

SAA's financial pressures require an additional going concern guarantee in order for the Board and the Auditors to sign off the company's financials as a going concern for the 18 month period ending 31 August 2013. A formal guarantee application will need to be submitted. Moreover, as agreed in our bilateral meeting, we will require that this submission be supported by a long-term strategy for SAA before any guarantee support can be considered. The strategy must include the following components, amongst others:

- Rationale and business case for the consolidation of the domestic aviation sector;
- Potential opportunities, advantages and disadvantages of bringing in a Strategic Equity Partner;
- Assessment of the economic impact of specific routes, particularly the loss making routes; and

- Funding plan including financial projections (at least 10 years) for ensuring the airline's return to financial sustainability.

I trust you will find the above to be in order.

Kind regards

Pravin

PRAVIN J GORDHAN
MINISTER OF FINANCE
Date: 19-7-2012

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DEPUTY MINISTER OF FINANCE

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Dear Colleague

The statutory obligation (section 55(1)(d) of the PFMA) of South African Airways SOC limited ("SAA') to submit its Annual Report and Annual Financial Statements ("AFS")

Further to our meeting on Wednesday, 29 August 2012, I write to draw your attention to the statutory obligation that applies to the matters we discussed regarding the financial position of SAA, as well as the report of the SAA's external auditors to the Department of Public Enterprises, National Treasury and the office of the Auditor-General.

As you are aware, in terms of the PFMA, SAA is required to submit its annual report and AFS to Public Enterprises, National Treasury and the Office of the Auditor-General on or before 31 August 2012. To date, SAA and the Department have employed their best endeavors to complete all the work required to achieve compliance with the provisions of *section* 55(1) (d) of the PFMA. Since April 2012, our two Departments have been made aware of the financial challenges faced by SAA and the fact that its auditors raised concerns regarding SAA's going concern and liquidity position which require resolution prior to the issuing of an unqualified audit. In order to address these concerns, SAA applied to the Department for a Letter of Support. In our view, the Letter of Support would satisfy the concerns of the auditors and enable the issuing of an unqualified auditor's report. This application and the discussions thereon are still underway as directed by you and I at our abovementioned meeting.

In accordance with SAA's obligations under section 55(1)(*d*) of the PFMA and the Company's commitment to compliance, I have agreed with its Board of Directors that SAA should proceed to submit its Annual Report and Annual Financial Statements to the Auditor-General, National Treasury and the Director-General of my Department today. As SAA's Executive Authority, I will continue to engage with you to expedite the Letter of Support to enable the submission of an unqualified external auditor's report as well as compliance with the tabling of all required documents to Parliament by my Department in terms of section 55(3) of the PFMA.

In addition, I have taken a decision to postpone the SAA AGM to 25 September 2012 in anticipation of the Letter of Support. I believe that this will afford our respective officials sufficient time to engage in order to ensure achievement of the commitments given at our meeting on the 29 August 2012.

I trust that you will find the above in order.

Yours sincerely

MR. MALUSI GIGABA, MP
MINISTER OF PUBLIC ENTERPRISES
DATE: 2012/08/31

cc: Ms Cheryl Carolus
Chairperson: South African Airways
Fax: 011 978 2520
Email: Pulane.Baloyi@flysaa.com

cc: Mr. Terence Nombembe
The Auditor-General of South Africa
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MINISTER OF FINANCE
12 SEP 2012
FILE No: M 4/1/1
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2661 - 12

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Dear Colleague

Request for a R5, 006 Million Guarantee for South African Airways (SAA)

My letter dated 31 August 2012 bears reference.

I wish to advise that the following are SAA's requirements:

- In the short term, SAA requires a letter of support to enable the auditors to give an unqualified audit opinion and for the annual financial statements to be adopted and released at the Annual General Meeting.

- In the medium term, SAA requires a guarantee amounting to R 5, 006 million to ensure that the airline continues operating as a going concern. The amount of R5, 006 million is based on the assessment made by SAA and reviewed by auditors, PricewaterhouseCoopers and Nkonki Inc (going concern report attached as ANNEXURE A).

- In the long term, SAA will require a recapitalisation. The application for a recapitalisation will be submitted after the long term strategy for SAA is finalised.

I understand from our earlier engagements that a long term strategy is required before any further funding support may be granted to the airline.

As an initial step towards developing the long term strategy, the Department commissioned a study through consultants to perform a diagnostic review on SAA to fully understand the challenges faced by the airline. The study was conducted by a reputable firm of consultants, Mott MacDonald and identified the following amongst other challenges:

- The current losses on international routes impacted by high fuel prices, inappropriately configured aircraft having a small business class cabin and a larger economy class, are a cause for concern.
- Clear long term objectives need to be made about the airline including the replacement of long haul fleet.
- There is a need to determine the optimal capital structure.
- SAA and DPE need to develop long term goals for the airline.

The findings of the diagnostic review will form the basis of the long term strategy and we expect that National Treasury will be involved in shaping and guiding the work to this end. Our preliminary assessment indicates that an exercise of this nature projecting 10 years ahead will require 3 to 4 months to complete. The long term strategy for the airline will therefore be completed by the end of January 2013.

I will appreciate it if you could give urgent consideration to a letter of support for SAA to enable the auditors to give an unqualified audit opinion ahead of the AGM, scheduled for 25 September 2012. Further, a guarantee application is being prepared for an amount of R5, 006 million in order to ensure that the company operates as a going concern.

I trust that the request will receive your favourable response.

Yours sincerely

MR. MALUSI GIGABA, MP
MINISTER OF PUBLIC ENTERPRISES
DATE: 2012/09/04

54. Information to be submitted by accounting authorities.—(1) The accounting authority for a public entity must submit to the relevant treasury or the Auditor-General such information, returns, documents, explanations and motivations as may be prescribed or as the relevant treasury or the Auditor-General may require.

[Sub-s. (1) substituted by s. 31 (a) of Act No. 29 of 1999.]

(2) Before a public entity concludes any of the following transactions, the accounting authority for the public entity must promptly and in writing inform the relevant treasury of the transaction and submit relevant particulars of the transaction to its executive authority for approval of the transaction:

(*a*) establishment or participation in the establishment of a company;

(*b*) participation in a significant partnership, trust, unincorporated joint venture or similar arrangement;

(*c*) acquisition or disposal of a significant shareholding in a company;

(*d*) acquisition or disposal of a significant asset;

(*e*) commencement or cessation of a significant business activity; and

(*f*) a significant change in the nature or extent of its interest in a significant partnership, trust, unincorporated joint venture or similar arrangement.

[Sub-s. (2) amended by s. 31 (b) of Act No. 29 of 1999.]

(3) A public entity may assume that approval has been given if it receives no response from the executive authority on a submission in terms of subsection (2) within 30 days or within a longer period as may be agreed to between itself and the executive authority.

(4) The executive authority may exempt a public entity listed in Schedule 2 or 3 from subsection (2).

55. Annual report and financial statements.—(1) The accounting authority for a public entity—

(*a*) must keep full and proper records of the financial affairs of the public entity;

(*b*) prepare financial statements for each financial year in accordance with generally accepted accounting practice, unless the Accounting Standards Board approves the application of generally recognised accounting practice for that public entity;

(*c*) must submit those financial statements within two months after the end of the financial year—

(i) to the auditors of the public entity for auditing; and

(ii) if it is a business enterprise or other public entity under the ownership control of the national or a provincial government, to the relevant treasury; and

[Sub-para. (ii) substituted by s. 32 (a) of Act No. 29 of 1999.]

(*d*) must submit within five months of the end of a financial year to the relevant treasury, to the executive authority responsible for that public entity and, if the Auditor-General did not perform the audit of the financial statements, to the Auditor-General—

(i) an annual report on the activities of that public entity during that financial year;

(ii) the financial statements for that financial year after the statements have been audited; and

(iii) the report of the auditors on those statements.

[Para. (d) amended by s. 32 (b) of Act No. 29 of 1999.]

(2) The annual report and financial statements referred to in subsection (1) (d) must—

(*a*) fairly present the state of affairs of the public entity, its business, its financial results, its performance against predetermined objectives and its financial position as at the end of the financial year concerned;

(*b*) include particulars of—

(i) any material losses through criminal conduct and any irregular expenditure and fruitless and wasteful expenditure that occurred during the financial year:

(ii) any criminal or disciplinary steps taken as a consequence of such losses or irregular expenditure or fruitless and wasteful expenditure;

(iii) any losses recovered or written off;

(iv) any financial assistance received from the state and commitments made by the state on its behalf; and

(v) any other matters that may be prescribed; and

(*c*) include the financial statements of any subsidiaries.

(3) An accounting authority must submit the report and statements referred to in subsection (1) (d), for tabling in Parliament or the provincial legislature, to the relevant executive authority through the accounting officer of a department designated by the executive authority.

[Sub-s. (3) substituted by s. 32 (c) of Act No. 29 of 1999.]

(4) The relevant treasury may direct that, instead of a separate report, the audited financial statements of a Schedule 3 public entity which is not a government business enterprise must be incorporated in those of a department designated by that treasury.

[Sub-s. (4) substituted by s. 32 (d) of Act No. 29 of 1999.]

Part 3: Other Officials of Public Entities

30. Annual financial statements.—(1) Each year, a company must prepare annual financial statements within six months after the end of its financial year, or such shorter period as may be appropriate to provide the required notice of an annual general meeting in terms of section 61 (7).

(2) The annual financial statements must—

(*a*) be audited, in the case of a public company; or

(*b*) in the case of any other profit or non-profit company—

(i) be audited, if so required by the regulations made in terms of subsection (7) taking into account whether it is desirable in the public interest, having regard to the economic or social significance of the company, as indicated by any relevant factors, including—

[Sub-para. (i) substituted by s. 20 (b) of Act No. 3 of 2011.]

(*aa*) its annual turnover;

(*bb*) the size of its workforce; or

(*cc*) the nature and extent of its activities; or

(ii) be either—

(*aa*) audited voluntarily if the company's Memorandum of Incorporation, or a shareholders resolution, so requires or if the Company's board has so determined; or

[Sub-item (*aa*) substituted by s. 20 (c) of Act No. 3 of 2011.]

(*bb*) independently reviewed in a manner that satisfies the regulations made in terms of subsection (7), subject to subsection (2A).

[Para. (b) amended by s. 20 (a) of Act No. 3 of 2011. Sub-item (*bb*) substituted by s. 20 (c) of Act No. 3 of 2011.]

(2A) If, with respect to a particular company, every person who is a holder of, or has a beneficial interest in, any securities issued by that company is also a director of the company, that company is exempt from the requirements in this section to have its annual financial statements audited or independently reviewed, but this exemption—

(*a*) does not apply to the company if it falls into a class of company that is required to have its annual financial statement audited in terms of the regulations contemplated in subsection (7) (a); and

(*b*) does not relieve the company of any requirement to have its financial statements audited or reviewed in terms of another law, or in terms of any agreement to which the company is a party.

[Sub-s. (2A) inserted by s. 20 (d) of Act No. 3 of 2011.]

(3) The annual financial statements of a company must—

(*a*) include an auditor's report, if the statements are audited;

(*b*) include a report by the directors with respect to the state of affairs, the business and profit or loss of the company, or of the group of companies, if the company is part of a group, including—

(i) any matter material for the shareholders to appreciate the company's state of affairs; and

(ii) any prescribed information;

(*c*) be approved by the board and signed by an authorised director; and

(*d*) be presented to the first shareholders meeting after the statements have been approved by the board.

(4) The annual financial statements of each company that is required in terms of this Act to have its annual financial statements audited, must include particulars showing—

(*a*) the remuneration, as defined in subsection (6), and benefits received by each director, or individual holding any prescribed office in the company;

(*b*) the amount of—

(i) any pensions paid by the company to or receivable by current or past directors or individuals who hold or have held any prescribed office in the company;

(ii) any amount paid or payable by the company to a pension scheme with respect to current or past directors or individuals who hold or have held any prescribed office in the company;

(*c*) the amount of any compensation paid in respect of loss of office to current or past directors or individuals who hold or have held any prescribed office in the company;

(*d*) the number and class of any securities issued to a director or person holding any prescribed office in the company, or to any person related to any of them, and the consideration received by the company for those securities; and (*e*) details of service contracts of current directors and individuals who hold any prescribed office in the company.

(5) The information to be disclosed under subsection (4) must satisfy the prescribed standards, and must show the amount of any remuneration or benefits paid to or receivable by persons in respect of—

(*a*) services rendered as directors or prescribed officers of the company; or

(*b*) services rendered while being directors or prescribed officers of the company—

(i) as directors or prescribed officers of any other company within the same group of companies; or

(ii) otherwise in connection with the carrying on of the affairs of the company or any other company within the same group of companies.

(6) For the purposes of subsections (4) and (5), "remuneration" includes—

(*a*) fees paid to directors for services rendered by them to or on behalf of the company, including any amount paid to a person in respect of the person's accepting the office of director;

(*b*) salary, bonuses and performance-related payments;

(*c*) expense allowances, to the extent that the director is not required to account for the allowance;

(*d*) contributions paid under any pension scheme not otherwise required to be disclosed in terms of subsection (4) (b);

(*e*) the value of any option or right given directly or indirectly to a director, past director or future director, or person related to any of them, as contemplated in section 42;

(*f*) financial assistance to a director, past director or future director, or person related to any of them, for the subscription of options or securities, or the purchase of securities, as contemplated in section 44; and

[Para. (f) substituted by s. 20 (e) of Act No. 3 of 2011.]

(*g*) with respect to any loan or other financial assistance by the company to a director, past director or future director, or a person related to any of them, or any loan made by a third party to any such person, as contemplated in section 45, if the company is a guarantor of that loan, the value of—

(i) any interest deferred, waived or forgiven; or

(ii) the difference in value between—

(*aa*) the interest that would reasonably be charged in comparable circumstances at fair market rates in an arm's length transaction; and

(*bb*) the interest actually charged to the borrower, if less.

(7) The Minister may make regulations, including different requirements for different categories of companies, prescribing—

(*a*) the categories of any profit or non-profit companies that are required to have their respective annual financial statements audited, as contemplated in subsection (2) (b) (i); and

[Para. (a) substituted by s. 20 (f) of Act No. 3 of 2011.]

(*b*) the manner, form and procedures for the conduct of an independent review under subsection (2) (b) (ii) (bb), as well as the professional qualifications, if any, and duties of persons who may conduct such reviews and the accreditation of professions whose members may conduct such reviews.

[Para. (b) substituted by s. 20 (g) of Act No. 3 of 2011.]

(8) Despite section 1 of the Auditing Profession Act, an independent review of a company's annual financial statements required by this section does not constitute an audit within the meaning of that Act.

[Sub-s. (8) inserted by s. 20 (h) of Act No. 3 of 2011.]